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Canadian Bankers

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OF THE

CANADIAN BANKERS' ASSOCIATION

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JOURNAL

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CANADIAN BANKERS' ASSOCIATION

OCTOBER—1904

EDITORIAL NOTES

Financially and commercially the hopes of the country have been resting on the weather for several weeks past. Upon a good harvest in the North-West everything has seemed to depend, and the growing crops have been watched with unusual solicitude.

The Western Country.

Several industries have been languishing, and the air has been full of rumours of hard times ahead. Under such circumstances all eyes were naturally turned westward and once again Canadians have good reason to feel thankful that the crops will enable the farming population to contribute to activity in transportation and industrial and manufacturing pursuits. While some of the newspapers predicted that the prospects for a good yield of grain were poor, and speculators

were telling stories in the wheat markets, of rust and heavy rains, our bank managers were quietly gathering estimates of the yield from their western branches, which have proved, as usual, thoroughly reliable. Any reaction in trade may fortunately be counterbalanced by the crop returns of the country, and with the high prices prevailing for grain, there would seem to be little cause for quarrel with the outlook for the passing year.

The Powers of Trust Companies.

The use of the words "trust," "trust company," "bank," and "banker" by others than those subject to supervision of the banking departments in the different States of the Union has at last caused a clamour in favour of the passage of a prohibitory act. For the protection of the public the indiscriminate use of the alluring words "bank," "banker," and "trust," should be denied except to chartered banks and trust companies, and care should be exercised to see that these confine themselves each to the business for which they were primarily created. Trust companies were first organized for the purpose of attending to business not included in the powers bestowed upon banks, to act as executors, administrators, and assigns, as trustees for bondholders, as investment agents, and managers of large estates. So long as the trust companies are confined to their legitimate sphere of operations there can be no objections to their existence. They render good and useful service to the community, and are fully deserving of the respect and confidence of their clients.

But they should not be permitted to carry on a regular banking business, or to discount paper.

It is true that Canada is fairly free from the bogus bankers by whom the people of the United States are so frequently robbed. The framers of our Bank Act acted wisely when they inhibited the use of the word "bank," and thereby made the abuse of banking titles by unscrupulous speculators almost impossible. To protect the earnings of the poor should be the duty of every government, and it would seem that recent occurrences in the United States, notably the wrecking of the

North American Trust, has aroused some of the States to the necessity of placing companies similar to this pricked Boston bubble under supervision.

The encroachments of trust companies upon the banking field in the United States have at last aroused public attention, and the Commissioner of Banking in the State of Pennsylvania has dealt the first blow at their assumption of banking privileges.

He has notified all the companies that, in doing a general banking business and in discounting paper, they are violating the laws, and that continuance in such wrong-doing will result in cancellation of their charters. As the trust companies have been oblivious to all remonstrances from the banks with whose business they have greatly interfered, there is naturally some rejoicing in the camp of the latter and corresponding consternation in the ranks of the trust companies.

The latter are not authorized to engage in the business of banking, and discounting privileges were certainly not included in the description of the powers conferred upon them as given in the circular issued by the State Banking Commissioner announcing that trust companies must discontinue banking business. As the majority of the so-called trust companies in the principal cities of Pennsylvania accept deposits and transact regular banking business, their yearly profits are bound to be seriously reduced by this action of the Commissioner of Banking. But a clear definition of the powers of trust companies was made necessary by their failure to comply with the laws under which they derive their powers. Fortunately there is no reason, as yet, for similar action to restrain respectable trust and loan companies from conducting a general banking business in Canada. They are content, except in a few instances, to act as trustees and executors solely, and to leave to the chartered banks the custody of the daily deposits of the people, the discounting of commercial paper, and transaction of the general banking business of the country.

It is in the interest of banks and trust companies that the powers and privileges possessed by each should be clearly defined and understood, and that both should keep well within the field of action allowed them by the law.

In the September number of *Gunton's Magazine*, Mr. Edward Maxey writes of the increased output of coal in the United States and its significance. He claims that the area of American coal fields at present opened to mining is five times as great as that of the coal fields of all Western Europe. In a late number of *Bradstreet's Journal* we find the following review of Mr. Maxey's article:

Paying Tribute to Coal.

"While practically all the available coal area of England, France, Germany and Belgium—the great coal-producing countries of Europe—has been opened to mining, we have scarcely begun. Continuing, Mr Maxey says, that while the taxing of exports of coal is now a practical question for Europe and is being seriously considered it will for years remain an academic question with us. That our exports will for some time to come increase rapidly; that this will be of temporary advantage in relieving the pressure caused by a surplus in the home market; that it will encourage American companies to build large colliers and thereby make us a more important factor n the carrying trade of the world, is reasonably sure. But the immense and permanent advantage that our vast supply will be to us as a manufacturing and commercial nation does not admit of question. The conclusion forced upon us by this survey is: Coal is the material monarch of the industrial kingdom, the centre of which has been transferred from British hills to American valleys, and that from these coal-bearing valleys future dynasties will rule the economic world by natural right."

Without venturing to predict what future dynasties may do, and without desiring to depose coal from the throne this patriotic reviewer places it upon, we cannot refrain from wondering if he has heard that coal can be found on this continent in other than the American valleys to which he has, in his mind, transferred the centre of the industrial kingdom.

The arguments in favour of the amalgamation of banks are so sound and numerous, that in the British Isles for years past the blending of private and joint stock institutions, the absorption of small banks by larger rivals, and the amalgamation of city financial corporations with banks having large business connections with the counties has been steadily progressing.

Convincing Figures.

The manifest safety and economy of the movement has of late appealed strongly to the stockholders in American banks, and, in addition to numerous amalgamations in New York and

Chicago, we frequently hear of the formation of "groups of banks," presumably several institutions conducted under the same management.

The latest intelligence supporting the contention that in reduced numbers lies safety and profit comes from Boston. In a statistical statement of the national banks of Boston, the report is made that their condition since their number has been reduced has been greatly improved. In 1898 there were fifty-seven national banks in Boston, while at the present time there are only thirty-two of these institutions in operation. These, however, carry a larger volume of deposits, and show larger earnings on their capital and surplus than did the fifty-seven banks in 1898. Of the thirty-two banks now in existence thirteen show earnings of over 10 per cent. on their capital, five of over 15 per cent., and two of over 20 per cent. In 1898 the total national bank capitalization in Boston was $49,650,000, this divided between fifty-seven banks. The present capitalization of the thirty-two banks is $33,800,000. The average rate of dividend paid in 1898 was about 2 3-10 per cent. The average rate of interest recently paid is nearly 6 per cent.

Possibly a reduction in the number of Canadian banks might result to the advantage of those most concerned.

FOR SALE.—Controlling interest in a $30,000 bank located in a good Illinois town of 1,200 population, in best farming district in the State. Cashiership goes to purchaser.

The above opportunity is set forth in the advertising column of an American financial paper; but, lest some promising official of a Canadian bank may be tempted by the offer to leave his country, the address is withheld.

Promotion by Purchase.

The abolition of the purchase system in the British army was hailed by many as affording a chance for the promotion of poor but efficient officers, who, when place and preferment depended upon the purse, were kept hopelessly in the background. That positions of trust and responsibility in the service of a bank can also be

bought would hardly be thought possible. Yet it appears that, like the wealthy British subaltern who used to be able to buy a captaincy, any bank clerk now performing the most ordinary routine work can, if he has the money, become a manager or a cashier. 'Tis true the bank is small, but it is located in one of the best farming districts in the State of Illinois.

Still the Financial Centre.

The sublime faith of our American cousins in the growth of their splendid country frequently leads them to claim that New York is now the financial centre of the commercial universe. However, every now and then, a report from some obscure consulate shatters belief in the claims of our neighbours, and serves to reassure those of us who may be led to fear that the sun is fast setting on British supremacy in banking and commerce.

One of the latest bits of testimony to the continued predominance of England in finance and trade is to be found in a report of the United States Department of Commerce and Labour on the trade of that country with South America. In the said report Vice-Consul Handley says:

"Banking facilities are indispensible to foreign trade. An English or a German bank seeking foreign business can establish foreign branches wherever it sees fit. An American national bank not being allowed to have a branch anywhere, our national banking system is unable to extend the facilities required by international commerce. The English and German trade in South America has the advantage of being sustained by banks whose branches cover the field. Credit at any point where the bank has a branch is available at any other point. Practically our American commerce depends upon English and German banking facilities, and London is growing to be the financial centre for American as well as British foreign trade."

Mr. Handley's report may not prove palatable to his countrymen, but it is written in the language of truth. He does not hesitate to say that the United States banking system is inadequate and calculated to handicap international commerce, and he likewise, even if reluctantly, admits that London is *growing to be the financial centre* not alone for British foreign trade, but also for American.

The Trust Company Idea and its Development is the title of an interesting little work, by Mr. Ernest Heaton, B.A., Oxon., barrister-at-law, of Toronto.

The Trust Company Idea.

About two years ago the following reference was made in the editorial columns of this JOURNAL to the passing of the sole executor and trustee:

"And with the passing of the private bank we also are beginning to see the last of the 'sole executor and trustee,' to whose business ability and faithfulness great fortunes have frequently been entrusted without consideration on the part of the testator of the changes caused by death or financial disaster overtaking the said sole executor.

"In the place of the old family private banks we have the modern mammoth financial corporations, and as successors to the executors and assigns of the past we have the trust company of the period, with its perfect mechanism ensuring absolute security to the widows and orphans."

Mr. Heaton, in discussing the functions of a trust company, refers to the "failure of the individual trustee" in no uncertain terms. He also, when comparing the trust companies of the United States with those of Canada, says that no well-conducted company in the Dominion will incur obligations to the public except in its capacity as trustee. His remarks upon this subject are well worth quoting in full, in view of the growing feeling in the United States against the coupling of a banking business with that of a trust company.

"In the United States a trust company can undertake a banking business, the guaranteeing of land titles, the underwriting of stock, and practically everything and anything of an agency description that will pay. In Australia and in Canada trust companies, as we have seen, have been developed upon different lines; and the manager of a well-conducted company under this name would reply that there are some other things which ought not to be done by a company to which the Government grants a charter for the purpose of attending to the interests of its wards, the orphan, the helpless and insane. It must not incur obligations to the public except in its capacity as trustee; and the invasion of the financial departmental store must be repelled, because the company which is confined to the functions of executor and trustee needs protection from the competition of the general agent.

"The foundation of the trust company idea is the failure of the individual trustee. There are few people who cannot recall some instances where a widow, left sole executrix, has been badly advised, and lost all that she had; where the man whom everybody trusted, speculated with the moneys placed in his care, and was unable to make restitution, or where the fortunes of a family have been wrecked by the absconding of a trusted friend. The trust company offers insurance against loss from these sources; and it is as neces-

sary as insurance against fire. In the British Colonies it is argued that this business is rendered more effective if the trust business of the country is concentrated in a few companies and the whole time and thought of the officials is devoted to the work; and it is right that it should be so, because the business is limited and there are important interests at stake. The trust company is entrusted with the most sacred responsibilities. It is the guardian of family secrets; it has in its care the welfare and future of many families; it is the adviser of the helpless and unprotected, and it is the trusted agent of the absentee."

After reading Mr. Heaton's book, the adviser of the helpless and unprotected, the trusted agent of the absentee, will surely feel that no government should permit a a trust company to accept deposits, to discount paper, and to accept all the risks incidental to banking.

The American Bankers' Association

The thirtieth annual meeting of the American Bankers' Association was held in New York last month. From reports of the proceedings, it would appear that the committee on currency legislation had to admit that its labours had been limited to efforts to find out what sort of a bill having the support of the bankers of the United States would find favour at Washington. The Mayor of New York, in welcoming the association, said to the members that changes in currency legislation had better be sought in a year when national elections are not occurring. All of which is not very cheering to the men who have the banking and commercial interests of their country at heart.

Interested as we are in the welfare of our American cousins, it is gratifying to observe in the address of the president of the American Bankers' Association an expression of his conviction that the increase in the wealth and resources of the United States makes repetition of the panics of 1873 and 1893 almost impossible. His strong condemnation of the present currency system only served to accentuate the apparent inability of the leading bankers to remove a question with which they are best fitted to deal from the hands of the national legislators.

The president of the New York Clearing House referred to the growth of amalgamation and co-operation as "the most significant phase of the economic development of the present day," and he expressed surprise that bankers do not seem to generally recognize the value of this force.

The Sub-Treasury system came in for some sharp criticism from Mr. Hepburn, who, referring to the plan of locking up in the Treasury the daily receipts of the Government, declared such action to be an "arbitrary and artificial interference with currency conditions" and he added that the system was enacted at a time when the Government was "*professedly afraid to trust its income funds in the hands of the banks.*"

From a general view of the proceedings at the great meeting of bankers in New York, it would seem that their Canadian brethren have much to be thankful for. This country is free, at present, from any troublesome currency question, and those who control the Dominion Treasury and the daily receipts of customs, post-offices etc., are not afraid to trust their country's money to the custody of its chartered banks.

(From the St. John *Globe*.)

In the July issue of the Journal of the Canadian Bankers' Association there is a chapter in the history of Canadian Currency, Banking and Exchange, which is of interest as a statement of events and occurrences in connection with Canadian finance. A good many persons in the Maritime Provinces, more especially those who carry in their memories recollections of the efforts to bring about confederation of all the provinces of Canada, will likely take a particular interest in some of the facts stated by the writer, facts which reveal the low state of the finances of the old Province of Canada before the union took place. The banks were steadily used to finance the government, and laws to regulate the currency were proposed not so much in the interests of sound business conditions as in the interests of the Canadian government, whose treasury contained little treasure, whose wants were many and whose needs were ever pressing. "Reliable and uniform" paper currency schemes were propounded, not for their intrinsic merit, but for their apparent usefulness in helping out the public treasury. Mr. Galt, who afterwards became Sir Alex. Galt, and who had a high reputation for his skill, knowledge and capacity as a banker, seems to have been without any great genius along that line, although he had considerable speculative daring. He proposed a scheme to the old Parliament of Canada in 1860, which by many was regarded as a brilliant movement to place Canadian banking and finances upon a secure foundation. The writer, however, says "the more the plan was discussed the more its defects rather than its merits came to the surface. The bankers and other practical men familiar with the needs of the country, proved quite conclusively that the scheme would be fatal to the primary need for an elastic currency." This particular scheme was not proceeded with, but it would seem that the conditions of the old province then, and conditions for the worse which followed, partially as the result of the repeal of the reciprocity treaty, and partly as a consequence of the war of the rebellion in the United States, put Canadian financial conditions in

very bad shape, and something had to be done. An extended and an enlarged partnership became necessary and these Maritime Provinces were taken in. Of course the writer in the Bankers' Journal does not state his facts in this way, but that was a result of the effort to reform the Canadian finances. The orators and public men who persuaded the people of this province that confederation would be a great thing for them, always represented the old Province of Canada as a rich and prosperous country, union with which would be to the material benefit of this province, by reason of the wealth of the older province. The careful student of the times will find in the article to which reference is here made statements which will lead them to the exact opposite of this view. And so far as the results are concerned, if there has been any material increase in the wealth of the Maritime Provinces, it has been made by the people here, by their energy and industry, not by any particular feature alone of confederation.

Currency and Confederation

Those who remember the extreme bitterness with which the scheme to unite the Maritime Provinces to the old Province of Canada was regarded by its opponents in New Brunswick and Nova Scotia, will not be surprised to find that the anti-confederate spirit still lives in the provinces washed by the Atlantic ocean.

In the *St. John Globe*, a New Brunswick paper, we find the above crisp and clever criticism of a chapter in Professor Shortt's History of Canadian Currency.

The racy reference to the financial affairs of the old Province of Canada as necessitating a wealthy marriage will be appreciated by many persons outside of the Maritime Provinces, and the deserved compliment paid to the country from whence this young Dominion has obtained such men as How, Thompson, Tupper, Fielding, and many other prominent public men, will not be quarrelled with by any student of the times in which we live.

But the editorial writer of the *St. John Globe* will readily admit that to the energy and industry of all the parties to confederation is owing the material prosperity of the whole Dominion of Canada, and not to any particular feature of the scheme of which he says, perhaps with unconscious sarcasm: "An extended and enlarged partnership became necessary and the Maritime Provinces were *taken in*."

From the monthly statement of the note circulation of the chartered banks, compiled from returns rendered to the Canadian Bankers' Association, the table appearing on page 13 has been prepared.

The student of the figures in this table will observe that in October the circulation of the chartered banks reaches its highest point. During the year 1902 the variation between the minimum and maximum amount of notes in the possession of the public was $17,342,443. Last year the variation was only $15,439,626, but the October total of notes in circulation showed an increase of five millions over the corresponding month of the preceding year, and comparison of the figures representing the paid up capital of the banks showed similar expansion.

Circulation of Chartered Banks' Notes

It is also noticeable that despite the expressed fears that the general business of the country inclines to dullness, and that the volume of trade is decreasing, the above table shows an increase at the *close of every month of the present year.*

Altogether the amount of actual money in circulation denotes growth in population and business, and the figures exhibited in the published table ought to dispel the gloomy fears of the pessimist. Some industries may be languishing, but the statistics of banking, trade, and commerce reveal no reason for grumbling at the condition of the country.

A complaint made by the mother of a junior clerk in a bank will be found in the Journal correspondence column. The question of finding "a suitable boarding place" has bothered the bank official for many many years. He, like the commercial traveller, has to accept such food and shelter as may be obtainable in the place to which the enterprise of those who control the banking and trade of the country may send him. The maps of the Dominion (frequently found at the head offices of our banks with small flags stuck therein to mark the cities, towns, villages and hamlets now enjoying banking facilities) show the entire country, from ocean to ocean, and even in the Yukon Territory and far Alaska, to be dotted with branches of chartered banks. So long as the spirit of competition, and the desire to assist in the growth and development of this country, induces general managers of banks to spy out the land, and to plant offices in every seemingly desirable district, it will be necessary to find officials, junior and otherwise, to serve their respective institutions at the said points.

Country Hotels

Possibly it is owing to knowledge that the pioneers of banking, the young men sent to remote branches, are sometimes exposed to hardship, and have to endure some discomfort, that several of our big banks require applicants for service to submit to medical examination.

One thing, at least, is certain in banking life. The clerk who, like the soldier and sailor, obeys orders, who, without a murmur to manager or mother, leaves for the post to which he is assigned, who submits uncomplainingly to the discomfort inseparable from the earlier period of his service, is apt to be singled out for deserved promotion when the time comes for the distribution of rewards for faithful service.

If the fond mother who fears for the health of her son will reflect, the difficulties in the path she would have the general manager follow must become apparent to her. We publish in this issue an article written a few years ago pleading for improvement in country hotels. Perhaps bank clerks who have cause to quarrel with their quarters may join with commercial travellers in an effort to educate the proprietors of unsatisfactory hotels. They may be found in cities, quite as frequently as in towns and villages.

New Contributors

This number of the JOURNAL contains articles by two new contributors. Mr. Doble, of the Bank of Montreal, writes most interestingly of a journey to Mexico, and, as very few Dominion bankers are able to travel so far afield when holiday-making, his description of the country and his impressions of its people cannot fail to please our readers.

Mr. Doble also contributes a prose production of peculiar interest to bank directors, managers, tellers, and all those who attend to the cremation and funeral rites of soiled and mutilated notes. Mr. Doble's treatment of his subject is replete with thought and sentiment.

Mr. Charles Gaudet is the author of an exceedingly intelligent exposition of the right of the State to expropriate the property of its citizens. His article upon the Right of Eminent Domain has additional merit in being, although the work of a lawyer, intelligible to laymen.

J. T. P. K.

CHARTERED BANKS.

NOTES IN CIRCULATION.

	1902	1903	1904
January	$48,586,531	$55,040,987	$56,973,274
February	49,450,996	55,746,493	57,736,245
March	52,442,984	58,283,484	59,760,121
April	50,691,588	55,877,618	58,649,872
May	50,754,716	56,949,120	57,857,177
June	53,953,043	58,865,846	60,038,482
July	52,070,065	57,563,666	59,979,833
August	55,035,701	60,414,740	
September	60,965,802	63,741,271	
October	65,928,974	70,480,613	
November	64,497,641	67,425,588	
December	60,574,144	62,539,408	

CAPITAL PAID-UP.

	1902	1903	1904
January	$67,621,011	$72,855,485	$78,625,589
February	68,041,136	72,931,549	78,701,542
March	68,406,624	74,776,500	78,723,552
April	68,474,523	75 443,635	78,737,844
May	69,358,448	75,979,338	78,801,319
June	69,584,308	75,905,206	79,193,028
July	69,733,761	76,971,021	79,267,773
August	70,196,254	77,481,095	
September	70,989,408	77,997,874	
October	71,281,535	78,255,462	
November	71,928,508	78,393,132	
December	72,015,664	78,555,368	

J. K.

THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

GOVERNMENT VERSUS BANK CIRCULATION.*

THE great problem of the sixties in Canadian monetary affairs turned on the question, should the Government or the banks, in future, furnish the circulating medium of the country? During the decade, two of the ablest ministers who have presided over Canadian finance made three separate attempts to bring the circulation within the practical control of the Government, yet their efforts were not successful. The first and third attempts were abandoned altogether, the second was only partially successful, though it laid the foundation for that portion of our paper currency now supplied by the Government and known as Dominion notes. With this limited encroachment upon their ancient domain, the bankers managed to hold their own, though the contest was always strenuous, sometimes even bitter, and the issue doubtful.

In the preceding article we have seen that Mr. Galt was forced to drop his proposal for a Government bank of issue, which he had brought forward in 1860. From 1862 to 1864

*Chief Sources:—

Journals of the Legislative Assembly of the Province of Canada; with Sessional Papers, 1865-66.
Journals of the House of Commons of Canada, 1867-69.
Journals of the Senate of Canada, 1867-68.
Speech of the Hon. A. T. Galt, Minister of Finance of Canada, on introducing the Budget, Ottawa, 1866.
Speech by the Hon. John Rose, Minister of Finance, Canada, on introducing the Resolutions on Banking and Currency, Ottawa, 1869.
A letter to the Hon. John Rose, Minister of Finance, Canada, etc., etc. On the subject of Banking and Currency. From the Hon. D. L. Macpherson, Senator of the Dominion of Canada; from Ontario, Toronto, 1869.
The Montreal Witness; Monthly Financial Review, 1866-69.
The Globe; Toronto, 1865-70.
The Leader; Toronto, 1866-69.

the Liberal party was in power, and during Mr. Holton's regime in the Finance Department the Government account was transferred from the Bank of Upper Canada to the Bank of Montreal. The latter bank was much more able to render the financial assistance which the Government at that period so urgently required. Mr. E. H. King was then manager of the Bank of Montreal, and from that time until the passage of the first general Bank Act of 1870, the Bank of Montreal, under the masterful direction of its manager, wielded an immense influence upon the financial policy of the country. As a condition of the transfer of the Government account to the Bank of Montreal, on the first of January, 1864, and its appointment as sole banker and fiscal agent of the Government, the bank had agreed to take $1,500,000 of 5 per cent. Provincial debentures for three years, at 98. Of this, $750,000 was required to redeem similar debentures maturing at the close of 1863, $250,000 in sterling exchange for intrest due on the provincial debt in England, and the rest to be drawn as required. It was agreed that the bank, as fiscal agent of the Government, should receive deposits of all public moneys from the public officers throughout the Province, and should avail itself, when necessary, of other banks or agencies where the bank might not have branches of its own. All such moneys received on public account were to be placed at the credit of the Receiver-General at the seat of Government, at par and without any charge. The bank should also make all payments on public account throughout the Province, at par and without charge. These arrangements might be terminated at three months notice, given either by the Government or the bank.

From the time of the collapse of the speculative boom of the fifties, the Canadian finances had been in a sorry plight. The credit of the country was steadily sinking in the estimation of British investors. And, indeed, a country in the unfortunate position of requiring to regularly borrow money to pay the interest on what it had already borrowed, was likely to find its proffered securities viewed askance by prudent investors.

The situation which had been reached in 1865 is set forth with blunt simplicity in the correspondence between Mr. Galt, the Minister of Finance, and Messrs. Baring Bros. and Glyn Mills & Co., the financial agents of Canada in London. Apart from considerable loans already floated, the Canadian Govern-

ment was indebted to their London bankers for extensive advances on temporary account, and they were similarly indebted to the Bank of Montreal. Early in 1865, in reply to Mr. Galt's inquiry, the London bankers report the impossibility of effecting any temporary loans for Canada at a lower rate than 7 per cent. In August Mr. Galt authorized them to sell the securities in their hands at 90 per cent. of their face value. But in October the London agents replied that Canadian five per cent. consolidated bonds were selling at 81 1-2, and the six per cents at 95 to 96. Galt urges that they must at least borrow sufficient to meet the £500,000 due to themselves on the 31st of December, £200,000 due to the Bank of Montreal on the 17inst. and £300,000 for the January dividends on the public debt. He therefore sends them authority to get the money at almost any price, though he hopes they will do their best to avoid slaughtering the securities, and urges the certainty of a bountiful harvest and the flattering prospects of Confederation, as favourable influences on Canadian credit. The financial agents, however. in explanation of their continued failure, remind Mr. Galt that the course of events in Canada during recent years, involving heavy losses for British investors, has given the country a bad reputation on the money market. It will, therefore, be necessary, for a time at least, that Canada should give some evidence of financial self-reliance. They have found it impossible to raise money at 7 per cent., and even at 8 per cent. they have only secured an additional £55,000. In despair the Minister of Finance turned to Mr. E. H. King, manager of the Bank of Montreal, begging an extension of the loan of £1,000,000 at 7 per cent., and requesting an additional $300,000 towards the January dividends due in England. On January 5th, 1866, he appealed to the bank once more for an additional half million on account of the Fenian troubles, offering to extend the term for notice of the termination of the agreement with the bank from three to six months. The Bank of Montreal, being already so deeply involved with the Government, had scarcely any option in the matter and made temporary advances, pending an arrangement by the Minister of Finance for other supplies or a shifting of the burden. Such was the situation which Mr. Galt had to face in 1866, and it will serve to explain the force behind his new move for a change in the currency system on the eve of Confederation.

In his budget speech of 1866, Mr. Galt surveyed the financial situation of the country and explained his plans for meeting it. By readjusting the tariff, in the direction of a British preference and retaliation towards the United States for the abrogation of the Reciprocity Treaty, he expected to equalize the income and expenditure for the following year. In the meantime, however, there was an accumulated floating debt of $5,117,000 to be met. But, as he put it, owing to the condition of the British money market, it was considered impossible to raise that sum by means of a British loan, and it must, therefore, be raised in Canada. To his own mind the only means of doing so was for the Government to resume, for provincial use, a portion of the credit which had hitherto been allowed to the banks of the country. The Government must, therefore, avail itself of a sufficient portion of the currency issue of the province to enable it to meet the urgent needs of the day. On the whole, he considered it rather fortunate that the currency system of the country should come up for consideration before the expiring of the bank charters in 1870. He hoped to be able to afford the banks such inducements as would cause them to give up their circulation altogether, and thus enable the Government to furnish the country with a stable and reliable currency. To this end the Government proposes to seek power to issue notes, redeemable in specie on presentation at Treasury offices in Montreal and Toronto, to the extent of $5,000,000 at least. Any banks surrendering their right of note issue are to be allowed interest at the rate of 5 per cent. on their average circulation, until the period at which their charters expire. As security for the proposed provincial notes, the Govenment will hold a certain reserve of specie, and provide provincial securities for the remainder.

The budget speech was delivered on June 26th, and Mr. Galt promised to bring down the details of his scheme in a few days. It was the 2nd of August, however, before he brought down the series of resolutions which was to be the basis of his measure. In the meantime his plans were submitted, in confidence, to a few of the leading Montreal bankers, early in July. The *Montreal Herald* managed to secure a copy of the proposals and published them. They were immediately the subject of comment in all the leading papers, and were closely scrutinized by the western bankers, who strongly condemned

the attempt to withhold from them proposed changes in the currency system which so vitally affected their interests.

In a letter from Mr. King to Hon. A. T. Galt of July 4th, certain suggestions were made as to necessary modifications of his proposals. To avoid the necessity for interfering with the currency system of the country, it had been proposed that the various banks should contribute towards a Government loan to the extent of 15 per cent. of their capital. This would furnish about $4,500,000 and the Bank of Montreal was willing to furnish, in addition, the other half million. Failing this arrangement, however, if the money must be furnished from Canadian sources, Mr. King saw no other alternative than the issue of provincial notes, redeemable in specie on demand. The simplest means of accomplishing this would be for the Bank of Montreal to surrender its circulation of between three and four millions, and to obtain the balance from the other banks. The directors of the bank could agree to this, however, only if the resolutions permitted any bank surrendering its circulation to resume it again after reasonable notice. This would enable the banks to test the effect of the measure.

The resolutions as finally presented by Mr. Galt on Aug. 2nd, differed in few important particulars from the draft as published in the *Herald*. In substance, the resolutions were as follows:—

(1) An issue of provincial notes was to be authorized to the extent of $5,000,000, these notes to be a legal tender and to be redeemable in specie on demand, at offices to be established in Montreal and Toronto.

(2) The Governor-in-Council might enter into arrangements with any or all of the chartered banks for the surrender of their power to issue notes. As compensation for this surrender, an annual sum, not to exceed five per cent. on their circulation as shown in the returns of 30th April last, should be paid each bank until the expiration of its charter. The provincial debentures now held by the banks, in accordance with their charters, should be exchanged for provincial notes, and the banks should be paid one half the estimated cost of their unused notes.

(3) The surrender of the power to issue notes must be completed within twelve months, the banks to be given provincial notes in proportion to the circulation withdrawn.

(4) The banks entering into this agreement with the Government would not be required to hold provincial debentures.

(5) Every bank surrendering its note issue must make a weekly return of the notes redeemed and outstanding, and compensation would be paid half-yearly on the amount redeemed until it reached nine-tenths of the circulation, when compensation for the full amount would be paid.

(6) The Governor-in-Council may, over and above the $5,000,000 already referred to, and the amount necessary to redeem the debentures held by the banks surrendering their circulation, cause provincial notes to be issued to the amount of the bank notes withdrawn from circulation, and also to any chartered bank on payment for them.

(7) So long as the circulation of the provincial notes did not exceed $5,000,000, 20 per cent. of the amount outstanding should be held in specie for their redemption. When the circulation was between $5,000,000 and $10,000,000, 25 per cent. should be held in specie, from $10,000,000 to $15,000,000 33 1-3 per cent., and over $15,000,000 50 per cent. to be held in specie. Provincial debentures would be held against that portion of the circulation not covered by the specie reserves.

(8) A return of the amounts of provincial notes in circulation and of the specie held for their redemption shall be published by the Auditor in the Canada Gazette.

(9) Branch offices of the Receiver-General's department may be established in Toronto and Montreal for the issue and redemption of provincial notes, or the Receiver-General may make arrangements with any chartered bank or banks for the issue and redemption of provincial notes, allowing a commission of 1 per cent. per annum, calculated quarterly, on the average circulation.

(10) Any bank which has surrendered its power to issue notes may resume it again, under its charter, on giving three months notice to the Receiver-General and publishing it in the official Gazette.

(11) The proceeds of the provincial notes shall form part of the consolidated fund of the province.

These modifications of Mr. Galt's previous scheme for a provincial bank of issue met with scarcely less severe criticism from the great majority of the bankers and merchants of West-

ern Canada. They maintained that it was certain to greatly affect the capacity of the banks to afford discounts, owing to the curtailment of their circulation which it would involve. The plan, it is true, left it entirely with the banks as to whether they should surrender their circulation or not. But, in the first place, they feared that, in competition with the Government notes as legal tender, their own might be driven out of circulation. In the second place, were the system to obtain a strong foothold before 1870, it was altogether probable that the privilege of issuing notes would be withdrawn from their charters when they came up for renewal.

The *Leader*, the Government organ in Toronto, interpreted the object of the scheme to be the complete substitution of Government notes for bank notes, and the placing of the currency of the country upon a perfectly sound and reliable basis, which it held to be lacking under the existing system. The *Globe*, as chief organ of the Opposition, and as voicing, for the most part, the convictions of Western Canada, attacked the scheme very vigorously. It condemned it alike as to its wisdom as a financial expedient, and as to its value as a currency measure. As a financial expedient it was plain that $5,000,000 obtained in this manner would cost the country from 8 to 8½ per cent. interest, made up of 5 per cent. allowed to the banks for the surrender of their circulation, 1 per cent. of circulation tax remitted, 1 per cent. for the cost of administation, and at least 1 per cent. for reserves to be maintained for redemption. As a currency measure it would destroy the flexibility of the circulating medium and curtail the capacity of the banks to furnish the necessary acommodation to trade. As a political measure it was condemned on account of the power which it would place in the hands of the Finance Minister with reference both to the banks and the public.

Though most of the bankers were opposed to the scheme on principle, yet a number of them admitted that if, as was expected, the Bank of Montreal, being the Government bank, were to adopt the plan and substitute provincial notes for its own circulation, the total amount to be issued being limited to $5,000,000, there would be little disturbance in the general banking system of the country. The system, indeed, would be not unlike that of England, the Bank of Montreal occupying the place of the Bank of England. They strongly objected,

however, to Mr. Galt's general plan, which aimed at replacing the whole banking circulation by provincial notes.

Certain financial critics in considering the effect of the proposed measure on the whole country, drew attention to the marked difference between the banking business of Upper and Lower Canada. The banks doing business chiefly in Lower Canada circulated relatively few notes, their chief operations being connected with exchange. The banks of Upper Canada, on the contrary, employed a large circulation representing accommodation to merchants and produce dealers, and their notes circulated extensively in the agricultural districts. It was in the west, also, that the periodic contraction and expansion in the note issue was so marked, being connected with the movement of the crops. Those Lower Canadian banks, like the Bank of Montreal, having numerous branches in Upper Canada, shared the characteristics of the Upper Canadian banks. The contrast between the eastern and western banks will be seen to a glance from the following table of returns at this period:—

	Paid Up	Notes in	
Eastern Banks	Capital	Circulation	Deposits
Quebec Bank	$1,465,440	$ 423,102	$1,122,000
City Bank	1,200,000	470,185	1,075,000
Banque du Peuple	1,598,085	95,681	679,000
Molson's Bank	1,000,000	200,000	912,000
Eastern Tp's Bank	295,307	95,424	114,000
Banque Nationale	1,000,000	226,408	417,000
Banque Jacques Cartier	822,670	100,740	481,000
Merchant's Bank	658,906	164,716	573,000
Western Banks			
Bank of Upper Canada	1,939,287	1,220,586	2,687,000
Commercial Bank	4,000,000	1,846,065	2,900,000
Gore Bank	805,960	836,638	974,000
Niagara District Bank	275,188	221,593	257,000
Bank of Toronto	800,000	952,473	1,049,000
Ontario Bank	1,813,860	1,447,423	1,753,000
Royal Canadian Bank	153,854	270,554	139,000

Of the eastern banks the note circulation amounted to 22 per cent. of the paid up capital, while of the western banks the note circulation amounted to 68 per cent. of the paid up cap-

ital. The Bank of Montreal stood alone with a paid up capital of $6,000,000, a note circulation of $3,563,251, and deposits to the extent of $11,342,000.

From this it is obvious that Galt's proposed change would affect but slightly the Lower Canadian banks, since they would obtain, in exchange for the provincial debentures which they then held, nearly as many notes as they required. In the case the Upper Canadian banks, however, they would either have to furnish specie for three-fourths of their notes, or greatly curtail their operations, thereby severely crippling the accomodation afforded to the public. On the 31st of May 1866, their circulation was $5,733,000, and their debentures $1,072,000, leaving $4,661,000 to be provided in specie, in addition to the amount to be kept on hand in their vaults to meet daily calls. As the discounts of the western banks amounted to about $15,000,000, this would mean the curtailing of nearly one third of the discounts. Again, the extra circulation needed every autumn, for the moving of the crops, would not be forthcoming, since it could only be provided in return for the deposit of specie. Neither could the eastern banks supply the extra cash, for the proposed change would merely alter the character of their note issue, not increase it. That could only be accomplished, in the east and west, by the deposit of additional specie.

In the end, the general hostility of the western bankers and merchants and the strength of the arguments drawn from the western conditions, once more forced Mr. Galt to abandon his wider scheme for the reconstruction of the Canadian paper currency. Hence, when, on August 3rd, he introduced to the Legislature his currency resolutions, he placed all the emphasis on the financial aspect of the measure, assuring the House that the sole occasion for bringing up the subject was the necessity to raise $5,000,000. He further indicated that if the money could be procured in any other way he was quite prepared to abandon his currency scheme. As it stood, he maintained that it was not the object of the Government to establish a bank of issue, but simply to dispose of Government debentures in a new form. In doing so he professed his inability to see any special difference between the issue of one $1,000 debenture and a thousand $1 debentures. This attitude lent considerable cogency to the criticism of the *Globe* as to the dangerous nature

of currency schemes which were designed to afford financial resources to the Government of the day, rather than to improve the currency system of the country. And indeed no principle could be more absolutely unsound than to manipulate such an important factor as the national medium of exchange or system of banking, merely to extract from it the means of tiding over a financial difficulty. The *Leader* could not conceal its disappointment at the turn which the argument had taken. It considered that Galt had greatly weakened his position by abandoning his scheme for changing the whole currency system of the country, so as to give it greater stability and more uniform value.

The banks steadily declined the various inducements offered to bring them into line, and the Government was therefore forced to fall back upon the plan of making special arrangements with the Bank of Montreal. But while his provincial currency resolutions were being debated in the House, another measure, to which Mr. Galt had very strongly pledged the Ministry, namely the School Bill for Lower Canada, was suddenly withdrawn, for reasons of expediency, and Mr. Galt found himself compelled to resign from the Government. Mr. Howland nominally took over the office of Finance Minister, for the time, but Mr. Galt continued to assist the Government with the financial measures then under way. The Government having greatly modified the original scheme, and having promised that if the necessary $5,000,000 could be obtained from the public as a direct loan, they would not make use of the note-issue powers conferred upon them, the bill became law.

The Act, 29-30, Vict. c. 10, follows very closely, so far as it goes, the wording of the resolutions. It provides for an unconditional issue of provincial notes, payable on demand in specie, to the extent of $5,000,000, and makes provision for the surrender of their note-issue powers by any or all of the chartered banks, the banks to receive compensation at the rate of 5 per cent. on the surrendered issue. It further provides that over and above the $5,000,000 authorized, the Government may issue such extra amounts of provincial notes as may be necessary to exchange for the provincial debentures held by the banks under their present charters and such further amounts as the banks care to pay for in specie, provided, however, that the total issue does not exceed $8,000,000. All the

banks were relieved from the penalties for usury, under the act respecting usury, but the legal rate of interest remained unchanged. The Free Banking act was repealed, except as regarded any bank or banks operating under it at the time. This applied practically only to the Bank of British North America.

After Confederation this law was re-enacted by the Dominion Parliament in 1868, as 31, Vict. c. 46. A few changes were introduced making it applicable to the whole Dominion. The name of the Government issue is changed from Provincial to Dominion notes, though the original issues then in circulation were to be taken as Dominion notes until others could be substituted for them. Halifax and St. John were added to Montreal and Toronto as places for the issue and redemption of the notes. The notes issued at Halifax, however, were to be redeemable on the basis of the currency of that province until it should be altered, i.e. at the rate of $5 to the pound sterling, and these notes were to be a legal tender in Nova Scotia only. Otherwise the conditions remain practically as stated in the Provincial Act.

The public loan of $5,000,000 being only very partially subscribed, the Government proceeded to complete arrangements with the Bank of Montreal for the surrender of its circulation and the replacing of it by the new provincial note issue. As finally carried out the arrangement with the bank provided:

(1) That the bank should gradually surrender its power to issue notes during six months from the first issue of provincial notes.

(2) The bank to be allowed 5 per cent. on its note circulation, as reported on 1st April, 1866.

(3) It should receive provincial notes for the debentures which it held, and be paid 50 per cent. of the value of its unused notes.

(4) The bank to receive 1 per cent. per annum as commission upon the average amount of provincial notes in circulation.

(5) The Government to prepare and deliver to the bank, as soon as possible, the provincial notes authorized under the act, a system of bookkeeping, of returns, and inspection being

prescribed. Monthly returns from these accounts to be publsihed in the Official Gazette.

(6) The bank to continue to act as financial agent for the Government and also as agent of the Province for the issue and redemption of the provincial notes, the Minister of Finance to make arrangements for the custody of provincial debentures, to provide funds for meeting any unusual demands for the redemption of provincial notes.

(7) The Government was to give six months' notice of the termination of the present arrangement, the bank on its part to give six months' notice of its intention to resume the issue of its own notes.

(8) The bank further agrees, while this arrangement remains in force, not to issue or pay out the notes of any chartered bank from any of its offices, except when no provincial notes are in possession of the bank.

These conditions were accepted by the Bank of Montreal on the 31st of August, 1866, and on September 13th, it was formally appointed agent of the Government for the issue of its notes. As, however, the actual provincial notes were still in course of preparation, the ordinary notes of the Bank of Montreal, stamped with the words "Provincial Note, Legal Tender," and signed by an official for the Receiver-General, were issued in the meantime.

The Bank of Montreal held at the time such a large amount of provincial debentures, that the conversion of them into provincial notes did not make any reduction of its available funds. The surrender of its own note issue to make way for the provincial notes neither curtailed nor augmented the currency of the country. On the other hand, owing to the limited amount issued, the change did not specially augment the funds of the Government. At best it merely changed the nature of its obligations to the Bank of Montreal by substituting provincial notes for Government debentures and temporary promises to pay. The provincial notes, however, were legal tender, and the Bank of Montreal, having surrendered its own note issue, did not require to keep on hand idle specie to meet them. The specie which they now held, apart from the portion securing the deposits, was retained at Government expense. Thus, though the occasion for this special issue of provincial notes was represented as entirely the urgent need of the Government

for an immediate supply of funds, yet, as a matter of fact, the notes were not issued to the extent of the funds required. On the contrary, with the help of about $1,000,000 obtained from the public loan, and an arrangement with some of the other banks, the Bank of Montreal had once more met the immediate needs of the Government. Mr. King had approached most of the other banks with a view to getting them to take and hold, as part of their reserves, considerable blocks of provincial notes. This was urged on the ground of its being a necessary assistance to the Government in its temporary embarrassment. The agreement was, that these notes were not to be used by the banks in settlement of daily balances until at least seven days notice had been given. The Bank of Montreal also offered special inducements, in the way of facilities for payment of balances in Montreal, for such banks as accepted these conditions. A number of banks entered into this arrangement, though others did not, and about $1,000,000 of provincial notes were distributed in this way. Afterwards, when, owing to financial troubles, growing jealousy of the power of the Bank of Montreal, and a heated controversy over proposed changes in the banking system, the feeling of the western banks ran high against the Bank of Montreal, the charge was made that this arrangement with the western banks was virtually the result of coercion. There is not, however, any sound evidence for this charge, and the more disinterested of the western bank managers freely admitted that the matter was entirely optional, though the Bank of Montreal was naturally very anxious to secure the co-operation of the other banks in getting the notes distributed. The net result of the arrangement was simply to replace part of the specie reserves of the other banks by provincial notes, and thus to distribute the burden of assisting the Government, which was becoming heavier than any single bank, however strong, could well bear. Moreover, as soon as the banks realized the convenience of holding Government legal tenders as part of their reserves, and as a means of settling balances, they continued to hold them in increasing quantities, after the temporary arrangement with the Bank of Montreal had ceased. That this policy weakened the specie reserves of the country, is quite true, but as the Government had to find the specie to meet the notes, such difficulties as might arise did not affect the banks, further than as anything which injures

the credit of the country as a whole impairs every financial interest in it.

But while the central object of the provincial note issue was a failure, no serious consequences for the Government resulted, for the public revenue rapidly improved in consequence of a lower tariff, a returning wave of prosperity, and an unusual expansion of imports even to the extent of considerable overtrading. Had the Government been forced to depend upon the success of the provincial note scheme, it must have been sadly disappointed, and its financial embarrassment would undoubtedly have greatly increased, with more or less serious consequences for the Bank of Montreal. As it turned out, the Bank of Montreal was very soon relieved of its congestion of Government securities. The Government account, instead of an embarrassment to the bank, became a source of great profit, with large balances on deposit without interest. The prestige of the bank rapidly increased and with it the jealousy of the other banks, with the result that the Bank of Montreal, from 1867 to 1870 was at once the most powerful and the most universally abused institution in Canada.

The progress of the circulation of provincial notes was very slow, but as the business of the country and the system of banking adjusted themselves to the new currency, their position became well established. As experience proved, provincial notes found a place for themselves in three directions, without to any appreciable extent disturbing the existing issues of the banks. In the first place, and to the largest extent, they took the place of the Bank of Montreal notes as they were withdrawn. In the second place, as legal tenders they took the place of a large amount of specie, which, being thus set free, ultimately passed out of the country, and, in the third place, they rendered unnecessary the importation of future stores of specie, which would otherwise have been required, to keep pace with the needs of domestic exchange.

The retirement of Bank of Montreal notes was very gradual, considering that every bank was supposed to send in daily for collection all the notes of other banks which came into its possession, and that none of its notes were reissued by the Bank of Montreal. The following table gives a monthly statement, to the end of 1867, of the circulation of the Montreal Bank notes and the provincial notes. It is to be observed that

the statement of provincial notes simply indicates the amount which has left the Receiver-General's hands. It was estimated at the time that at least one million remained unissued in the vaults of the Bank of Montreal and its chief branches, while the greater part of another million was held as a permanent reserve by various other banks under special arrangement with the Bank of Montreal as already indicated.

	Bank of Montreal Circulation Outstanding.	Provincial Notes in Circulation.
1866		
September	$3,187,000	
October	2,768,000	$2,920,000
November	2,429,000	3,418,000
December	1,994,000	3,122,000
1867		
January	1,669,000	3,205,700
February	1,396,000	3,159,700
March	1,176,000	3,248,700
April	1,019,000	3,098,700
May	912,000	3,229,700
June	821,000	3,312,693
July	755,000	3,479,693
August	678,000	3,222,693
September	657,000	
October	603,000	3,918,242
November	544,000	4,008,242
December	510,000	4,265,242

The Bank of Montreal, both as financial agent of the Government and in its own interest, naturally sought to procure for the provincial notes as large and permanent a use as possible. Anticipating that several of the banks, owing to their hostility to the new measure, would endeavour to return the provincial notes for specie as soon as issued, the Bank of Montreal sought to make it as inconvenient as possible to convert the notes into specie. Presumably with the intention of facilitating the issue and redemption of provincial notes, it had been arranged to have them issued and redeemed both at Toronto and Montreal. When this was put into actual practice, the Bank of Montreal utilized the arrangement to facilitate their issue and retarded their redemption, by making the notes issued at Toronto redeemable in Montreal and those issued at Montreal redeemable in Toronto. This simple device brought down upon the bank and the Government the severe

criticism of the western banks and the righteous indignation of the political party opposite. The device, however, apparently effected its object. But when it was observed that there was to be no continued effort to force the notes into circulation, and that the circulation of bank notes was not appreciably affected, the excitement abated. Soon all alarm as to the evil effects to follow the revolutionary measure was dissipated. The good effects anticipated were equally wanting. The function of the notes being limited, their circulation was limited also, and increased only with the needs of general banking for their service in the settlement of balances.

Although the anticipated consequences did not follow their issue, the criticism of the essential unsoundness of the attempt to meet the financial needs of the Government by the arbitrary issue of Government notes, remained as valid as before, and the subsequent experience of Canada with the Dominion notes has not in the slightest weakened the strength of that criticism. The exact part which the Government notes were destined to play in the Canadian system of currency, was quite in the nature of a discovery, alike for the banks and the Government. Thus out of the conflict between the friends and opponents of the Bank of Issue, something which was neither intended, on the one hand, nor regarded as admissible, on the other, actually resulted and has been accepted by all parties as hitherto quite practicable within proper limits.

Such being the practical outcome of Mr. Galt's measure, the question still remained as to what should be done with the numerous bank charters which were to expire in 1870.

After a short interval, Mr. John Rose, previously a successful Montreal lawyer, and subsequently an equally successful banker and statesman in Britain, succeeded to the position of Minister of Finance. He found the growing urgency of the bank question one of great difficulty.

The old suspicion as to the instability and lack of safeguards in the Canadian system, was given special point and force by the final collapse, in 1866, of the old and at one time powerful Bank of Upper Canada, and the suspension, in the following year, of its ancient and equally noted rival, the Commercial Bank of Canada. It was widely suspected, also, and not without considerable foundation, that several other banks were in a delicate position. All this gave more or less reason-

able ground for the feeling that the Canadian system was at fault. Something more stable, and less open to the uncertainties of the personal factor, seemed to be required. The recently perfected National Bank System of the United States seemed to promise an excellent model. Owing to the myriad of State banks which had come into existence, under all manner of different laws and with every grade of security, it had become almost impossible to carry on business between different parts of the United States, on any other than a specie basis. By introducing a completely uniform and perfectly reliable currency, the National Bank system had brought order out of chaos, and placed the currency of the country upon a perfectly sound basis. As a general system of banking it was, indeed, open to some objections. To Canadians, casting about for a reliable and uniform currency with which to equip the new Dominion, the American system had naturally many attractions.

In November, 1867, the Bank of Montreal issued a statement of its policy and action in connection with the western banks, as a reply to numerous criticisms of its conduct during the crisis connected with the suspension of the Commercial Bank. Appended to this was a statement by Mr. King of his views on the subject of an adequate banking system for the new Dominion. The system which he outlined was, as nearly as possible, a reproduction of that of the United States, even to recommending small independent banks. The issue of notes was to be restricted, and also to be secured by Government debentures deposited with the Receiver-General. The banks should hold a certain reserve of specie, or legal tenders, to protect their deposits, and in default of payment on demand there should be a summary winding up of the bank. Coupled with this, he advocated a modified issue of Government notes, to be a legal tender and limited in amount to the reserves held by the banks, against deposits, thus enabling the banks to hold their reserves against deposits in Dominion notes.

The recommendations of a man of Mr. King's personality and professional distinction naturally attracted much attention. His views were shared by Mr. Paton, chief representative in Canada of the Bank of British North America, and, next to Mr. King, the most influential banker in the country. Mr. Rose himself doubtless held the same views. At any rate they were completely accepted by him, and embodied in a series of resolu-

tions which he placed before Parliament on May 14th, 1869, as the basis of an act establishing a new banking system, and authorizing the continuance of the chartered banks for another ten years.

In deference to a general public demand, both Houses had appointed committees, during the first session of the New Dominion Parliament of 1867-68, to investigate the banking conditions of the country. The committee of Senate reported on March 30th, 1868, but the Commons committee simply framed a series of questions, which were submitted to most of the leading bankers, merchants and boards of trade of the country. The following session their replies were classified and published as a first report of the committee. The Senate committee, of which the Hon. D. L. Macpherson was chairman, was strongly opposed to any radical changes in the existing system of banking. The Commons committee, on the other hand, of which Mr. Rose himself was chairman, was evidently in favour of the views held by him, and its leanings were plainly indicated in the series of questions which it framed. The replies received exhibited a wide diversity of opinion among the bankers themselves.

The third question submitted by the Commons committee was the most important, as touching the necessity for any change in the existing system. It asked, " Do you favour the system of a direct issue of Government notes as a circulating medium for Canada, or that of having circulation based on Government securities, but issued to the public otherwise than directly by the Government ?" Mr. Paton, of the Bank of British North America, was opposed to a direct issue of Government notes, but was in favour of bank notes issued on the security of Government debentures. He thought this system might be completely introduced within four years. The notes issued by the banks should be endorsed by a Government official, and when any bank failed the securities should be sold and the notes redeemed by the Government. Under these conditions specie reserves might be reduced to one-fifth of the circulation, to meet ordinary fluctuations. The propotion of specie to be held against deposits payable on demand should be one-third, and one-fifth against deposits on time. These views were shared by Mr. H. Stephen, merchant of Montreal, J. W. H. Rowley of the Bank of Yarmouth, Nova Scotia, and the Hon. R. D.

Wilmot of New Brunswick, though the last gentleman leaned towards a complete Government issue of paper money. The great majority, however, including the representatives of all the western banks, and of the banks centering at Quebec and Halifax, were strongly opposed to any change in the existing system. They were quite prepared, for the most part, to have the system amended, with a view to increasing the security of the note holders and depositors. To this end several of them proposed an improvement in the qualifications of directors, the necessary accumulation of reserve funds, and the giving of effect to the double liability of shareholders in cases of suspension. They also favoured the publishing of more detailed returns by the banks, and many concrete suggestions were made on this point.

As the opening of Parliament drew near and it became known that the Government proposed to bring in a bill making radical changes in the banking system, an extraordinary amount of interest was developed in the subject, especially throughout Western Canada which was chiefly affected. When Parliament assembled, a large number of representatives of the banking and commercial interests from all parts of the Dominion met at Ottawa and passed resolutions unanimously urging the necessity for preserving the existing system of banking, particularly as regarded the right of the banks to issue their own notes. The Government, however, persisted in bringing down its measure. The resolutions embodying it were moved by the Minister of Finance, Mr. John Rose, and seconded by the Premier, Sir John A. Macdonald. It was found that the resolutions embodied very literally the views of Mr. King, together with numerous amendments and improvements suggested in a number of the replies brought out by the parliamentary committees. The majority of these minor amendments were afterwards embodied in the first general Bank Act of 1870 and its enlarged form of 1871.

In his speech in support of the resolutions Mr. Rose adopted a very conciliatory tone towards the opponents of the scheme, who were not only numerous and influential, but many of them supporters of the Government to which he belonged. He promised that ample time would be allowed to consider the plan in all its details. There were at present, he said, three systems operating within the Dominion, those of the old

Province of Canada, of Nova Scotia, and New Brunswick. A number of bank charters were about to expire, new banks were seeking incorporation and others desiring enlargement of capital and amendments to their charters. Hence the ugency of the question and the necessity of introducing some uniform, safe and permanent system for the whole country. Without making any special parade of the recent bank failures in Canada, the last of which had occurred just a few days before, he nevertheless adroitly used some of the revelations which had been made in connection with their management to indicate the weakness to which the whole Canadian system was subject. He skilfully endeavoured to prove that Canada had quite outgrown its system, which was doubtless good enough for the country in its earlier days, but which was no longer suited to the larger and more extensive field which was opening up before the new Dominion, with a trade and industry destined soon to extend from the Atlantic to the Pacific. The primary consideration at such a juncture was a safe, national currency which would be of known value, and equally acceptable throughout the whole Dominion. He maintained that the Government had no special financial interest in the proposed change. He dwelt on the terrible confusion in the currency of the United States before the introduction of the National Bank system, which had wrought such a beneficial revolution in the monetary affairs of that country.

It was not intended to effect any sudden changes in the practice of the Canadian banks. The banks would continue as they were until June 1st, 1871. After that they would gradually reduce their present form of circulation twenty per cent. each year, replacing it by the new secured notes. The transition would thus extend over a period of five years.

Taking up the most radical and popular objection to the proposed change, namely that it would curtail the capacity of the banks to meet the needs of the country, he tried to show that this fear had been greatly exaggerated. He admitted that it would require more capital to support the new system, but that was simply one of the conditions of its greater security. He sought to show, however, from bank statistics, that the need for additional capital would not be so large as commonly represented, while the number of applications for new charters and for the extension of capital on the part of existing banks,

indicated that there was plenty of capital awaiting investment in banking to amply provide for all extra needs. He pointed out, further, that the deposit and discount business of Canadian banks was rapidly increasing, while their capital and note issue were far from keeping pace with it. This indicated, as he quite accurately anticipated, that an increasing proportion of the business of the country would be effected through the cheque and clearing system, rather than by an increase of note circulation. As to the necessity for elasticity in the currency, to suit the crop moving needs of Western Canada, he admitted that the banks would have to provide themselves with more notes than were required during the rest of the year. He urged, however, that the capital behind these notes would not be dead, while they lay in the vaults of the bank, inasmuch as it would be invested in Government securities upon which a fair interest would be paid. Here again he appealed to American experience, where even larger crop movements took place, effected by the sending of money from east to west, as could also be done in Canada.

It was just here, at the most critical point in his argument, that he was least convincing, his point of view being essentially that of the eastern provinces. It naturally appeared to practical western bankers and merchants, as wholly unnecessary to tie up a considerable portion of the capital of the country in Government securities, simply for the purpose of furnishing notes for use during a couple or three months of the year. Neither did they relish the prospect of inviting eastern bankers to share with them one of the safest and most profitable operations in the year's business, the moving of the crops and the furnishing of return supplies for the farmers.

In the sacrifice of the free note issue lay the insuperable objection to the new system on the part of most Canadian bankers, especially as, in their eyes, the note issue still represented the central and most profitable feature in banking.

The Government had apparently supposed that, as in the case of the opposition to Galt's provincial note scheme, when those of the ministerial party who were dissatisfied with the measure found the Government really in earnest they would fall into line and withdraw their opposition. But on this occasion their opposition was more radical. Even if the measure could have been forced through the Commons, it was very

doubtful whether it would pass the Senate, where the banking and commercial element was particularly strong. The question had really come to be one affecting the Province of Ontario. In the other parts of the Dominion the changes in circulation which it involved did not greatly affect the financial position of the banks. In the end, the Government, realizing the strength of the opposition, and in deference to strong and united pressure brought to bear upon it by the Ontario members, agreed to postpone the further consideration of the resolutions until the following session.

Mr. Rose, accepting the result as a final defeat of his measure, retired from the Government, and accepted an important position in the banking world of London, where he rose to considerable distinction, alike in finance and politics. About the same time Mr. King retired from the manager's chair in the Bank of Montreal, after bringing that institution to remarkable power as a financial factor, not only in Canada but in America. When Sir Francis Hincks once more returned to Canada and to his old position as Minister of Finance, profiting by the experience of his predecessors he sought counsel chiefly from the western bankers. While duly regarding the value of American experience, he ignored altogether the feature of Government securities as a basis for note issue, and developed the Canadian system along its own characteristic lines.

ADAM SHORTT.

BOLDNESS EVER BLIND.

This is well to be weighed; that boldness is ever blind, for it seeth not dangers and inconveniences; therefore it is ill in counsel, but good in execution; for in counsel it is good to see dangers, and in execution not to see them, except they be very great. Some in their discourse desire rather commendation of wit, in being able to hold all arguments, than of judgment in discerning what is right; as if it were a praise to know what must be said, and not what should be thought. It is a strange thing to behold what gross errors and extreme absurdities men do commit for want of a friend to tell them of them. The help of good counsel is that which setteth business straight.—*Bacon.*

AN END OF BIMETALLIST AGITATION.

THERE are few fields of controversy in which a greater degree of bitterness is manifested than in currency disputes. For over a quarter of a century the keenest of currency controversies has been that known as the bimetallic controversy. It is not a little strange, perhaps, that it was made a fundamental issue in United States presidential election campaigns so late in the day as eight and four years ago, in view of the fact that the changes had then already taken place which were to destroy its vitality. Still more remarkable is it that, in the year of grace 1904, it should be necessary for Judge Parker to take so definite a stand in the matter of his adherence to the gold standard in accepting the Democratic nomination for the Presidency. It is remarkable because the difficulty, to meet which the adoption of bimetallism was advocated, is so near solution by other methods that the revivification of the bimetallic agitation now appears a quite remote contingency.

The agitation was supported, not merely by currency inflationists, but by a substantial body of sober and thoughtful men who sought a remedy for real evils. The separation of the latter from the supporters of the free silver programme may be expected to destroy whatever chance of adoption it may have had. And that separation has either already taken place, or must do so very soon. The evils for which they sought a remedy were of two kinds, though the two were intimately associated. On the one hand the persistent downward trend in the prices of most leading commodities presented dangers which seemed avoidable, and, on the other hand, the use of different standards of currency in different parts of the world had introduced an instability into exchange rates, between countries on a gold standard and those on a silver standard, which hampered international trade in a serious degree. The fall of prices was associated, by thinkers of the class above indicated, with the decreasing use of silver for currency purposes and a lack of adequate supplies of gold to take its place. The for-

ging of a link of connection between the values of silver and gold seemed to afford a means of enabling the white metal to supplement the yellow and offset the inadequacy in the supplies of the latter. Such a link, too, would restrain the violent fluctuations in exchange between silver-using and gold-using countries, and thus remedy the second of the evils complained of.

The fact that silver mining had become an industry capable of fairly ready expansion to meet any established market demand for the product. led the partisans of silver to feel a greater confidence in the stability of value of silver than in that of gold, so long as the fluctuations in supply of the latter metal depended on the accidents of the discovery of fresh deposits hitherto unknown, generally in quarters of the globe previously little, if at all, explored. Gold, they felt, was plentiful or scarce, not in response to the needs of the business world for the metal for currency or reserve purposes, but according to the luck of explorers of new lands, so far as additions to the world's stores of the metal were concerned. The supplies of silver, on the other hand, could be readily enlarged, if needed, and to practically any extent needed. The opponents of free silver regarded this point as a source of danger, for the potential supplies of silver were so great that the guarantee of a practically unlimited market appeared to threaten overwhelming inflation. Certainly the probabilities in favour of inflation attached to the silver party those who desired that result, and who would have felt not the least particle of enthusiasm for a measure such as the more sober bimetallists desired, a measure aimed at checking the fall in prices merely, not at substituting a rapid rise for the fall. The chapter of accidents has almost, if not quite, separated the sober bimetallists, who sought stability, from their inflationist associates, and thereby deprived the agitation of a very important element which lent to it real strength. The gold-mining industry in the Transvaal, and not in the Transvaal alone, but in Australia and in other parts of the world as well, is now dependent in a very large degree on the handling of known mineral deposits with efficiency and economy, rather than on the accident of the discovery of the new deposits. Not merely has the annual production of gold largely increased in recent years, but it has become dependent on conditions which promise to make it

responsive to changes in the intensity of demand as it has never been in previous times.

Correspondence between the needs of commercial nations for gold as the metallic basis of a currency seems, then, assured now as certainly as a like correspondence could have been guaranteed by sober advocates of bimetallism through the operation of their schemes in the years past. A great part of the reason for seeking to introduce bimetallism is, thus, no longer existent. The problem is solving itself. And the same is true of the other phase of the problem, a phase more readily grasped than that just treated. No small part of the difficulties whose remedy was sought in bimetallism may be traced to the rush of European nations towards gold as the basis of their currencies, in place of silver, in the early seventies of the last century. The newly formed German Empire, France, the three Scandinavian nations, all passed from a silver to a gold basis at that time. In the case of Germany, not only was no new silver needed for coinage, but a large amount of old silver was displaced, and some of it was sold. Associated with France were her neighbours, Belgium, Switzerland and Italy. All four, and Spain as well, use large amounts of silver still, but they offer no market for new silver so far as additions to coinage are concerned. Austria has, after a prolonged effort, achieved the reform of her currency and its re-establishment on a gold basis. Russia has attained the same end, the new gold currency accepting the depreciation of the rouble during the period of inconvertibility, and making the gold formerly equivalent to one rouble now equivalent to one rouble and a half. Japan, almost simultaneously with Russia, in 1897, re-established the gold standard, going even further than Russia in the acceptance of accomplished facts, and giving its silver yen a valuation approximating to their metallic value, and but half that which coins of that weight would have had a quarter of a century earlier. The United States resumed cash payments in 1879, practically on the gold standard. The bolstering up of silver by the compulsory purchases under the Bland and Sherman Acts came to an end in September, 1893, shortly after the Indian Government had put an end to the coinage of the silver rupee on private account. In India, the relation which has been established between silver and gold corresponds, in its acceptance of actually accomplished

depreciation, to what Russia later carried through. Formerly, about 10 rupees were the equivalent of a sovereign, now 15 rupees have that equivalence. India, unlike the other countries named, did not, and does not, aim at a gold circulation. The maintenance of an adequate reserve of gold enables the exchange value of the rupee to be maintained without the actual circulation of the sovereign, a point which needs no elaboration in Canada.

The success of the Indian currency experiment has had results of very great importance. It showed the practicability of the mode of procedure adopted, under circumstances differing considerably from those under which Holland had maintained a gold standard of values without a gold currency in her East Indian possessions. The year 1903 has seen substantial extensions of the application of the principle involved, and proposals for yet further extensions, which, if found feasible, will place the entire commercial world on a basis of gold valuations, at any rate, wherever convertibility on any metallic basis is maintained for paper in circulation. In the Philippines, the currency has been re-organized, and the new coin, which is to take the place of the Mexican dollar, is to be maintained at a value of fifty cents in American gold by means generally similar to those adopted in India. For the Straits Settlements, the first steps have been taken towards the attainment of a like end, in the issue of a special Straits dollar, to take the place in circulation both of the Mexican dollar, and of the British dollar which has been struck for general use in the East since 1895. The import of Mexican or British dollars, or of Japanese yen, has been made illegal, and the export of the new coin likewise. The determination of a definite rate of exchange of the new coin with gold will probably be made in due course, and measures for maintaining it will be of a similar nature to those adopted for India. It is understood that the authorities of French Indo-China have in contemplation action similar to that of India and the Straits Settlements.

The two great silver-using countries which remain are Mexico and China. So far as Mexico is concerned, the Commission which was appointed early in 1903 reported, after very thorough investigation of the question, in favour of movement by Mexico towards the establishment of the gold standard in that country. Not only has there been this investigation

of the question by Mexico, but, in association with China, Mexico sought the assistance of the United States in its efforts towards securing stability of international exchange. An American commission was thereupon appointed, and, accompanied by delegates from Mexico, visited Great Britain, France, Holland, Germany and Russia. In each country the visitors met commissioners appointed to confer with them, and correspondence took place with Japan in addition to the conferences in Europe. The report of the commission sets forth a plan for the establishment of a silver currency in China, and securing a stability of exchange-value between this currency and gold. In the absence of any Imperial Chinese currency, circulating throughout the Empire, the first step needed to bring China into line is the issue of such a currency, and the proposal made is that an imperial mint be established in China, under the supervision of a foreigner, to be appointed by the Chinese Government, with the approval of the Governments of the great nations of the world. The coins which are recommended are to have a bullion value somewhat below their nominal value in gold, so as to leave scope for ordinary market fluctuations in the gold price of silver without the danger of a slight rise causing the coins to be consigned wholesale to the melting pot. The seigniorage, together with funds raised by loan if necessary, is to be used to provide a gold reserve, partly deposited in the principal financial centres of the world. By the sale of drafts on such centres, a check would be provided against excessive depression in the value of the local currency. The ability and willingness of the Chinese Government to provide and maintain a gold reserve of adequate amount is assumed in putting forward these proposals, since without this the desired check on instability of exchange could not be secured. In furtherance of the work of the commission, one of its members has been further charged with a mission to China, to endeavour there to promote the objects aimed at, and to enlist the sympathies of European Governments to which was the purpose of the visit of the American and Mexican delegations to Europe. The difficulties to be overcome are not slight. So great are they, indeed, that the opinion of those whom the American visitors met in conference in England and in Russia favoured deferring the measures aiming at the fixing of a gold-exchange value for the Chinese currency, until the

obstacles to the effective establishment of such a currency should have been overcome. Whether China will set up an Imperial silver currency in the near future, and take the necessary means to give to it the stability of value attained by the rupee in India, cannot be confidently known. But the public discussion of such a measure, and the active efforts of the United States Government, associated with the Mexican Government, to secure the adoption of such a plan, are of the greatest significance.

It will be recalled that the International Monetary Conference of 1878 was convened at the instance of the United States. France was associated with the United States in summoning the next conference of 1881. In 1892, once more, the United States took the lead in inviting other countries to hold a third conference. All three of these conferences were aimed at securing adhesion to some plan of international bimetallism. The persistent efforts of the United States in this direction lead one to look for the mark of the cloven hoof in connection with this latest effort to solve the exchange problem. But the nature of the solution put forward seems to mark the definite abandonment of all ideas of establishing silver as an international monetary standard on a footing of equality with gold. Silver currencies are proposed, but their values are to be rated to gold, and the latter alone would thus become the universal standard. It is true that in this last, as in former efforts, the idea that it is desirable to "do something for silver," makes its appearance. Both Mexico and the United States are greatly interested, as silver producers, in promoting the employment of that metal for currency purposes. But the chief action, looking to that end, which is proposed, is the introduction of a regularised employment of silver by the millions of China, and any settlement of the difficulties of exchange with China would be likely to involve a proposal of that kind.

It is of interest to note that the report, presented by the American commissioners, offers argument by which it is designed to prove that natural conditions are now favourable to a reasonable degree of stability in the value of silver. Three-fourths of the output, it is stated, is secured from ores in which the silver is associated with other metals, as copper or lead, the latter forming the principal product of the industrial exploitation of

the ores. Thus the fluctuations in the market price of silver do not affect, in any great degree, the amount of the output of silver, so far as this large part of that output is concerned. Outside Mexico, the production of silver has not increased, but, on the contrary, has even decreased, in recent years. Were the costs of working in Mexico to be reckoned in gold, as would be the case were Mexico to adopt the gold-exchange standard proposed, a further fall in the gold-price of silver would impose a check on the production from Mexican mines whose product is chiefly or wholly silver. In this way a restraining influence on overproduction, not felt so long as, with the silver standard, the cost of production is measured in terms of the product itself, would be introduced. Could some stability of demand be added, the report argues that a tolerable approach to stability of value would result. The adoption of a rating of silver to gold roughly identical in all the countries adopting the gold-exchange standard, with silver as the chief or sole circulating medium, is offered as an influence likely to stabilise demand. Should silver rise in value to the neighbourhood of the point where the metallic contents of the coins would be worth their face value, a practically simultaneous cessation of purchases of metal for coinage purposes by all such countries is relied on to depress the market value of silver anew, through the check to demand. On the other hand, the needs of large populations for a circulating medium is looked to to insure a constant outlet for the metal produced. Further, the industrial uses of silver are expanding, and already absorb about one-third of the product. There is thus anticipated a demand of some expansibility, and capable of a considerable degree of regulation, and a production not liable to great increase merely as a result of the removal of much of the risk of fluctuation of price in the downward direction.

Some surprise may be felt that Mexico should be willing to see silver deprived of its position as the material of standard money, and relegated everywhere to a subordinate function. Silver, however, no longer occupies a place of so great importance among the industries and exports of the country as formerly. Other commodities are growing in relative importance, and other interests than those identified with silver are gaining in influence. Thus the effect of a policy, which is calculated to dissociate the value of the coinage from the bul-

lion value of the material of which it is composed, need no longer be judged so much from the standpoint of those interested in silver-mining.

To return to the point from which we set out, the events of the year 1903 seem to point as unmistakably as could be desired to the abandonment of the policy of seeking to unite silver and gold on a footing of equality as materials of money. One standard, and that the gold standard, is acknowledged as desirable, and not merely attainable, but, to all intents and purposes, the only one practicable. Much progress towards its universal establishment has been made in the last ten years, and the ground gained is not likely to be lost through obstinate adherence to a policy which appeared desirable to many at an earlier phase of the problem. Important changes have occurred tending to destroy the foundation of the more solidly reasoned arguments in favour of bimetallism, and accomplished facts show that an alternative solution of the problem of establishing stability of international exchange exists. To adopt this solution in the few remaining important instances calling for treatment, commends itself as the simplest procedure. The United States no longer seeks to induce other countries to enter into an international agreement on currency matters, though it has sought the support of their approval of a plan for extending to China the system of the gold-exchange standard, which has been found applicable so largely in the east. Even though the plan for Mexican currency reform should not be carried out immediately, and that for China should be found impracticable for a decade or so, the lines on which further movement is most likely to take place have been indicated with some approach to certainty. Bimetallism is no longer in the field as an urgent currency reform, free silver no longer menaces the stability of financial operations on this continent. As party watchwords these cries have lost whatever power or charm they once possessed, and the policies they represented will be able to secure that dispassionate examination and judgment which can hardly be secured for the subject of violent political strife. Further, the field is now clear for an attack on other defects in existing currency arrangements. It is freely acknowledged that there is room for improvement, which may involve no small degree of reconstruction, in existing currency institutions, and not

least in those of the United States. To have got rid of one attempt to introduce changes, which many regarded as involving fatal risks, may prove to have removed a real obstacle out of the way of the careful consideration of other proposals for reform no less fundamental, if lacking the spectacular elements of the free silver agitation. Freedom from agitation on currency matters seems too ideal a condition to be long maintained. Perhaps the nature of the next great battle, around whatever flag it may be fought, will demonstrate that the spectacular element can be introduced into each successive controversy on monetary matters, however unpromising the matter which is made the subject of controversy.

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GOOD BREEDING.

A Gentleman is a Christian in spirit, that will take a polish; the rest are but plated goods, and however excellent their fashion, rub them more or less, the base metal will appear through.

An Englishman making the grand tour towards the middle of the last century, when travellers were more objects of attention than at present, on arriving at Turin, sauntered out to see the place. He happened to meet a regiment of infantry returning from parade, and taking a position to see it pass, a young captain, evidently desirous to make a display before the stranger, in crossing one of the numerous watercourses with which the city is intersected, missed his footing, and in trying to save himself lost his hat. The exhibition was truly unfortunate; the spectators laughed and looked at the Englishman, expecting him to laugh too. On the contrary, he not only retained his composure, but promptly advanced to where the hat had rolled, and taking it up, presented it, with an air of unaffected kindness, to its confused owner. The officer received it with a blush of surprise and gratitude, and hurried to rejoin his company;—there was a murmur of applause and the stranger passed on.

THE RIGHT OF EMINENT DOMAIN.

BY CHARLES GAUDET, MEMBER OF THE MONTREAL BAR.

IN a recent number of the North American Review, Joseph Pulitzer, the most successful of New York journalists and proprietor of the New York World, justifies his munificence to the College of Journalism of which he is the founder and benefactor to the extent of many millions of dollars, by a plea, as strong as it is sincere, for the education of the editors and correspondents of the large American dailies who mould public opinion and enlighten the citizens of the vast Republic. Reflective reason unmistakably points to our inadequate knowledge of such questions as the relations of capital and labor, the regulation of public utilities by municipalities or by the nation, and of our ignorance of the legal bearing of such phrases as "Eminent Domain," "Vested Rights" and "Writ of Injunction." The conviction that Mr. Pulitzer is right in seeking to impart to journalists and through them to the public the legal knowledge required to safeguard private property and civil rights against adverse legislation has prompted this short exposition of the principles underlying the laws of expropriation or, as English jurists have been pleased to call it, the Right of Eminent Domain.

The true knowledge of the right of ownership with which these laws *apparently* conflict, are of vital interest to the community. That a man must be master of the house he buys, of the shares in companies or of an interest in a business which he may inherit, that he may sell, give, lease, alienate, destroy or deal in any manner whatsoever with his property, determines his right of ownership. If you destroy or impair this right, the hidden power which goads men to action, the incentive to work dies with it. No man will take the risks of the merchant, the responsibilities of the banker, the worries of the broker, unless he knows that the returns which are reaped at the expense of such sacrifices are his and inalienably his. No plainer facts need be recalled to emphasize the sacredness of this principle than the results which followed its negation by Jean

Jacques Rousseau, the apostle of the revolution, and Mirabeau its rugged champion, and which France mourns in the blood-stained pages of its history. Besides these extreme and avowed violations of the right of ownership which Proudhon has tersely and defiantly expressed in these words "la propriété c'est le vol" and which breed revolution and socialism, lurks the occult danger of unjust legislation and the abuse of the right extended to certain corporations to expropriate private individuals.

The right which the state has of depriving the citizens of his property and which it sometimes delegates to corporations, constitutes the right of eminent domain and being an exception to the right of ownership can only be exercised within the strictest limitations. Briefly these limitations may be summed up under four heads:

1. That the expropriation be for public utility.
2. That this be legally ascertained.
3. That a just indemnity be previously paid.
4. That all legal formalities be strictly complied with.

No law exists which forces the individual to give up incorporeal rights or movable property such as stocks, bonds, articles of furniture or works of art. Expropriations are directed against real estate and the real rights attached thereto. The nation as well as the individual has rights. The requirements of sanitation in overcrowded centres may require the opening of streets; in like manner excavations and the tearing down of walls of private houses may be essential to the defence of the national territory, the development of the nation's wealth may demand the construction of railways throughout the country. All these are reasons which justify the inconvenience caused to the individual in the interest of the public. Parliament and the legislature exercise this right and sometimes delegate it to municipal corporations and private companies, but it is doubtful whether a municipal corporation could empower a private company to expropriate as was done by some municipalities in this province in view of the principle *potestas delegata delegari nequit.*

The special law which authorizes expropriation proceedings ascertains its cause, but this is also done under a general statute by the body corporate so privileged.

An essential condition in all cases is that a just indemnity be previously paid to the person expropriated. Both the pro-

prietor and the lessee are entitled to such a compensation. The indemnity is paid in money and previous to the *prise de possession*. The value of the property at the time the expropriation proceedings are taken determines necessarily the amount of the indemnity. This includes the intrinsic value of the property and a compensation for damages suffered which varies in every case and may be assessed for instance in accordance with the depreciation of the commercial value of an adjoining piece of land, or by right of the inconvenience suffered by being deprived of access to a river or any of the innumerable causes which has framed our jurisprudence on damages. The lessee is entitled to an award proportionate to the enjoyment of the property until the expiry of his lease, to the costs of the improvements made to the property should they revert to the proprietor at the termination of the lease, to the expenses incidental to moving from the premises, to the costs of repairs which have necessarily become useless, to the damages which this change may cause and to the excess of rental incurred over that previously paid.

The law demands inexorably that the formalities prescribed in such cases be fulfilled. The neglect to comply with these requirements which vary according to the provisions of city charters, of the Municipal Code or of the statute of incorporation as the case may be, entail nullity.

Aware of the existence of his rights the hardheaded business man wants to know how he is to exercise them, and of what use all these substantive rights are to him, when face to face with "parliament which is all powerful." This phrase with a similar one "the King can do no wrong" and many others, must be viewed through the glasses of constitutional limitations. It is for the intelligent citizen to choose and wield the arms which the law gives him. When despoiled of his property without the observance of the required formalities, he has first an action to recover its ownership. To this he may add a claim for damages. When the legal formalities have been fulfilled, but the indemnity has not been paid his recourse lies in an action for the recovery of the indemnity. He may likewise have recourse to the writ of injunction against corporations who do not comply with all the requirements of the law. The writ of injunction whose effectiveness has mischievously been alluded to as "government by injunction" is effectively

used in England to restrain promoters from proceeding with a bill to set aside a covenant. It is not considered as an infringement upon the privileges of parliament as this proceeding is directed upon the person and not upon the jurisdiction. This might have been an effective proceeding in the case of the recent regrettable legislation by which a large pulp company had its property bodily taken from it by unscrupulous and more powerful opponents. Public interest often serves as a veil for spoliation and corporations and others having large mercantile interests should adopt the policy of prevention by a careful scrutiny of proposed legislation. This would serve as a check on the greed of promoters who despoil private interests which the legislators may in certain cases overlook in good faith.

This succinct exposition of the Right of Eminent Domain which covers the elements of the subjects only, is not meant for the large corporations who are naturally advised by most learned counsel in these cases. Even here, however, the importance of a thorough knowledge of such an important branch of our law may be drawn from the disappointment which two large companies shared in Toronto a few days ago. While both were exhausting all the resources of diplomacy and finance to purchase from a proprietor an enviable site for a railway station, a third company, better informed as to the Right of Eminent Domain, made a demand in expropriation on the said party, gave due notice and having complied with all legal formalities won the privilege which is accorded to the most diligent in such cases. The law in cases of expropriations decrees with total disregard to the sacred text "the race *is* to the swift."

"BUT," ITS OFFENSIVENESS.

"But" is to me a more detestable combination of letters than "No" itself. *No* is a surly, honest fellow, speaks his mind rough and round at once. *But* is a sneaking, evasive, half-bred, exceptious sort of a conjunction, which comes to pull away the cup just when it is at your lips:—

. . . . It does not allay
The good precedent;—fie upon *but yet!*
But yet is a jailor to bring forth
Some monstrous malefactor.

Sir Walter Scott.

A MONTREALER IN MEXICO.

A. R. Doble.

IN a certain big three story house dwell three large families. The smallest of these inhabit the top flat, where they live in a quiet, unostentatious but comfortable manner. The largest family of the three occupy the middle floor; they are a somewhat noisy crowd, disregardful often of their neighbours' rights and of conventionalities, but at bottom good-hearted and hospitable. Their style of living betokens opulence, though somewhat lacking in refinement, for they are wont to vary a display of much fine raiment with an exhibition of shirt sleeves at the windows. They haven't made very good friends with their neighbours above or below, whose property they are thought to covet. The folk on the ground floor have lived within themselves a good deal and are little known to their neighbours, but they have often given proof of a kindly disposition and of an open and progressive mind. To be sure the dwelling has a basement, inhabited by a rather turbulent and motley crew, with whose quarrels the other tenants seldom interfere, though the second or middle-floor people have at times evinced a disposition to go down and clear them out.

Now the name of this house, or tenement if you will, is "North America," and the three important tenants thereof are, as is well known, Canada, United States and Mexico. The reader, who will have no difficulty in locating himself on the top floor, is asked to call with me on the people two stories below. Perhaps he doesn't believe in visiting his neighbours; mayhap he has had unpleasant experiences in that line with the family immediately beneath, who are apt unconsciously to repel strangers by displaying undue curiosity as to the contents of any little parcels they may have with them. But pray set aside preconceived ideas as to the propriety of getting intimate with your proximities, and come with me.

Dropping allegory, let me assure you that our not very distant neighbour in the family of nations is well worth cultivating. Theirs is a land in the early morning of development, but with a record of wonderful accomplishment in the brief space since sunrise. It is a land of immense natural resources and of wonderful natural beauty. It is a land of palm and pine, of tropic heat and eternal snow, capping the greatest peaks in America—a range of climate capable of producing almost everything nature and man jointly or severally can produce.

The Mexican people are shrewd, courteous and prosperous. This description covers their business, social and personal aspects. In neither of the three are their ways our ways. In some respects it might be better for us if they were. There are few nations from whom we Anglo-Saxons might not learn something; but seldom are we willing to do it. Yet he who goes down to meet the Mexican must learn patience if on business, often to put off till to-morrow what he would rather do to-day. If on pleasure bent, he must learn to use politeness and consideration towards those with whom he is brought into contact. If to make a study of a most interesting country and people be his object, it will be best achieved by the exercise of tact and judgment and by falling in as far as possible with the ways and manners of the land. The gaping tourist, disregarding local prejudices and profaning national sanctuaries is as ridiculous and objectionable in these as in other foreign parts.

And here I may say what perhaps should have been said at the outset—I am attempting no guide to Mexico. For that, consult Baedecker, who has, I suppose, attended to this in common with other countries. I am simply jotting down a few impressions left by a three weeks' sojourn in the republic.

We entered Mexico by the front door, which is the port of Vera Cruz, we left by one of the side entrances to Uncle Sam's territory. The water route is greatly to be preferred unless time be an object, it is five days by rail from Montreal to Mexico, and ten or eleven by water. One can break the journey comfortably at Havana, and, while waiting for the next steamer, see something of beautiful Cuba. But this must be done on the way down, for quarantine regulations do not permit passengers in transit from Mexican ports to land at Havana. The Ward Line Steamers are comfortable and their pas-

sengers are well treated. Before reaching Vera Cruz a stop is made at Progreso, a place in Yucatan of considerable importance. There is no harbour, but the steamer is anchored ten miles off shore, and the cargo lightered. We got to know the vicinity pretty well, for we struck the place on one of the numerous feasts or "fiestas" observed in Mexico, and the greatest of them all at that, "Cinco de Mayo," or 5th of May, the National holiday and a Mexican 4th of July. Not a native would work, had any been willing to do so the port authorities would not have permitted it, while on the following day most of the workmen were recovering from the effects of the celebration. "Pulque," the national exhilarant, is cheap, and its after effects are nasty. So our good ship lay in the tropical sun off the low, sandy, Yucatan shore for three solid days, with shark-fishing the sole amusement. Sharks indeed there were, aplenty, but they were canny chaps and knew the exact difference between a lump of pork on a big hook and good wholesome plain food. The skipper said they were old sea-captains reincarnated; this would account for their wisdom, but perhaps the pilot fish which keep them company have something to do with such perspicacity. At any rate no shark was hauled aboard, but there were always dozens of them close to the ship and plainly visible. When the unloading of the vessel began, it was a wonder to see the fellows work. Nearly every man was a Sandow, and the way each one of them handled steel rails and other heavy and awkward merchandise was marvellous. At night, we had our first view of the Southern cross, set low in the heavens above the town, a bit askew, but a celestial jewel of rare beauty.

We arrived off Vera Cruz Sunday morning, and anchored hard by the Mexican navy. It is not a very extensive or imposing affair and might serve as a model to other nations when disarmament becomes general. But there was another fleet awaiting us, for no sooner was the quarantine flag lowered, than over a hundred bumboats or other very inferior craft made a dash for our ship, and their navigators poured aboard. Pretty soon all the passengers were dickering with these gentry to be taken ashore, for, strange as it may seem, the steamship company sells through tickets from New York to the City of Mexico and yet leaves the tiny link in the chain of communication represented by a few hundred feet of water, 'twixt ship

and shore to be connected by an extortionate boatman. Thoughtful friends had prepared better things for us, however, for we were taken off by the railway company's boat and entertained by their terminal superintendent until the departure of the afternoon train for Orizaba. He even held the train half an hour to enable us to finish comfortably the luncheon he had provided!

Small toads from the Montreal puddle might be pardoned for swelling visibly at such attentions. However, we had reached a country where not even the railways are in a hurry.

Vera Cruz is a good place to get out of. Yellow Jack, with the alliance of a few other unpleasant ailments more than decimates its population annually. Tourists usually get away from the hot country by the first train. Mexico City is a night's journey distant and wise travellers break it at Orizaba, where one can sleep in comfort at an altitude of 4,000 feet and continue the trip in the morning. Orizaba has good water power in the vicinity and large cotton mills are operated thereby. It has also a big brewery, whose product is famous throughout the republic; justly enough, judging from samples.

Soon after leaving Orizaba the train passes the foot of "Pico de Orizaba," whose snowy summit is over 18,000 feet high, and commences a wonderful climb, making in 18½ miles an ascent of 3,071 feet. Mountain and valley and stream unfold in a wonderful order as the train slowly winds, snake-like, up and up, hauled by powerful double-ender engines which yet seem almost two weak for the tremendous task. Some of us sat on the steps of the rear platform of the last car, and those who did will, I am sure, never forget the wonder of it all. Mile after mile of slow, patient, painful climbing and at last a stop in rare air at an elevation of 8,000 feet. At Esperanza, just beyond, we dined at a station resturant, than which there are many worse much nearer home. Then the journey was resumed over the great plains dotted with the maguey plant which yields the pulque, before alluded to as the national beverage. This fluid is of a milk and water colour, and when in proper condition tastes not unlike buttermilk. It is then wholesome and not unpalatable and contains about the same alcoholic percentage as light beer. It is collected by the insertion at the base of the plant, of a siphon formed out of a gourd, one end of which leads to the operator's

mouth. The operator sucks and the liquid flows into the vessel, from which it is transferred into pigskins where it matures for a day or so. As fermentation proceeds and the stuff ages, it becomes highly intoxicating and in this state is largely consumed by the peon or labouring class, often with the addition of wood alcohol! A large portion of the revenue of the Mexican Railway is derived from the carriage of pulque, the consumption of which is something enormous. The construction of this railway is somewhat unusual even in Mexico, steel ties being used throughout. There are not altogether satisfactory on account of their rigidity and failure to hold the ballast and will probably be replaced by hardwood, which is almost universally utilized for the purpose in tropical countries. There are three classes of railway coaches on all the lines, and smoking is allowed in any of them, even the train hands indulging in the weed. The first-class cars are comfortable enough and on night trains standard Pullman sleepers are operated. The Mexican Railway is largely owned and managed in England, and until recently was equipped with English carriages. Its engines are built in Glasgow. Formerly all the lines in the country were narrow gauge but many have lately changed to standard, or have such a change in contemplation.

You may now imagine yourself in Mexico City, and if you expected to come to any unkempt, uncomfortable, half-civilized town, you will be pleasantly surprised. You, Mr. Montrealer, who have been proud of the commercial metroplis of the Dominion, will find that your town is outclassed in many respects by the Southern city, which in population goes that of the North about 100,000 better. You will find wide, well-paved, well-lighted streets, free from overhead wires and unsightly poles. Wires are put underground in the central part of the city and are strung on one set of poles in the outlying sections. You will see handsome buildings, public and private, built, for the most part, around flower-filled courtyards. Everywhere you will find police, mounted and foot, the former wearing a steel helmet which shines brightly in the sun, the latter carrying a lantern which burns dimly at night. (This is deposited in the middle of the street, don't run into it or you may be fired at, though not, necessarily, hit.)

The climate of the city is considered trying to strangers, who usually feel the effect of the great altitude soon after

arrival. If they escape trouble then, they will probably get along very well for several months, but in the long run it tells upon them. Living two miles up in the air is altogether different from living near the sea level, and it is estimated that the air at such an altitude as 7,400 feet, that of the City of Mexico contains 25 per cent. less oxygen that at the sea level. Lungs, of course, have to adapt themselves to such circumstances and the process is sometimes attended with considerable discomfort to the proprietors of those organs. The daily regime of the native is that best suited to the climatic conditions, and consists of a light breakfast of fruit, coffee and rolls, usually served in one's own chamber, a meat breakfast, equivalent to a hearty luncheon, at noon, and supper or dinner, a less heavy meal than luncheon, at seven. Office hours, to fit in with this arrangement, are from ten to one and three to six. From one to three business practically ceases, even the shops put up their shutters and all hands go home. The banks nominally remain open, but there is little doing and nearly all the officials leave. Their closing time is four.

The country is on a silver basis, the standard being the dollar, whose value, of course fluctuates with the metal. There is a limited gold coinage, also a considerable bank note circulation, partaking largely of the nature of the "wild-cat" currency of American ante bellum days. In the country districts the circulating medium is the silver dollar, the peons look with suspicion upon paper money, and are wont to ask when rendered payment in that form, where they can get that "boleto" (or ticket) cashed. The question of monetary stability is receiving considerable attention at present and it is proposed to fix the value of the Mexican dollar at 50 cents gold, putting the country on a gold basis.

The shops of the capital are most attractive, particularly those devoted to jewellery, and if a leading Montreal house ranks next to Tiffany's on this continent, one concern in Mexico makes a pretty good third. Buying in the shops is quite interesting for it invariably means bargaining. The merchant usually asks twice as much for his wares as he expects to get and three times as much as he will take. In the thieves' market and in the department store, no reasonable offer is refused. This thieves' market is a most unique in-

stitution. In a corner of the city, duly allotted to them, the light-fingered fraternity hold market daily until noon, though Sunday is the great day for trade. The thing to do, when relieved of any article of value, is to hurry down to the market to buy it back as cheaply as possible before some other fellow gets it! How the curio hunter would revel in the place, and what delightful bits of brass and porcelain are to be picked up for a few centavos.

And Sunday is the day of days for others than thieves. The faithful—largely of the fair sex—go early to mass, and then resort to the flower market to purchase the gaudy blossoms of the tropic lowlands and the sweeter, though less showy buds of the temperate plains. From twelve to one there is a parade through the Alameda or Central Park, where under awnings spread over the walks for the occasion, the grave señors and gay señoritas of the town saunter to the music of the band. Up one walk and down another in two opposing streams they move, perchance resting awhile on the seats with which the walks are lined, to watch the merry throng pass by.

After the parade the midday meal, taken perhaps in the open-air flowery courtyard of the Hotel Iturbide or other well-know restaurant, a good orchestra playing the while, and then the bull ring, or Plaza del Toros. The unequal contest between the beast and his human antagonist has often been described, and is in part a remarkable display of human agility and in part a barbarous exhibition of wanton cruelty, this latter characterization being warranted by the sacrifice of half a dozen poor old blindfolded horses to the fury of each bull. Though the sport is immensely popular it does not receive the support of the President or his wife.

After the performance all Mexico goes awheel, and the populace in private carriages, automobiles and public cabs proceed slowly along the beautiful Paseo de la Reforma to Chapultepec, where, crowning a steep hill stands the castle, now a residence of the President, but once, for a short space, the home of the luckless Maximilian and the unhappy Carlotta. It was also the scene of a heroic defence by a handful of cadets against the Americans in the war with that country and for that reason, is to the Mexican, holy ground. Surrounding the castle is a fine park through which the drive is continued, the carriages then return-

ing to the city. From the city to the castle, a distance of some four miles, there is, every fine Sunday afternoon, an unbroken line of vehicles, the occupants arrayed in their best—women in light lacy garments, men in frock coats and tall hats. At sundown there is a rush for town before the always chilly night air demands wraps and overcoats. At nine o'clock the theatres open, where the performances continue till well after midnight. An admission fee entitles attendance through one act; to remain for another necessitates the purchase of a fresh ticket. One act is about all the average foreigner will require, but the native, assisted by lengthy intermissions and frequent refreshers, usually stays until the hero and heroine interwine and the villain perishes.

The city enjoys cheap and good transportation by means of street cars and cabs. The former are operated by electricity, with the exception of a few lines where mule traction still survives. The fares are graded, but five cents (Mex.) will pay for a long ride. The cab service is excellent, and is divided into three classes, namely, blue, red and yellow, distinguished by coloured flags of tin carried on the box beside the driver, who turns the signal down when he has a fare. The classes rank in the order named, the blue tariff being 75c Mex. per hour, the red 50c and the yellow 25c, a "pourboire" being expected in addition. The reds are the most numerous and are fairly well kept, the yellows are pretty shabby. Every month the authorities conduct an inspection, with a view to ascertaining whether cabby is entitled to the rank he wears; should he fall below the required standard he is reduced to a lower class. The vehicles are of the type familiar to Montrealers.

One of the funniest sights is to see bulky articles transported by hand. On the day after our arrival we were greatly amused at the spectacle of a good sized square piano being borne down the street by three husky chaps who went along at a steady jog-trot. Someone was evidently moving house, for the "pianny" was followed by a miscellaneous assortment of household articles all jogging along in the same way. Our trunks went to and from the station each on the back of one of these coolies, and there was no delay in transit either.

During the second week of our visit I had occasion to visit a large construction camp near the city, and the wonderful

strength of the labourers was again manifested. On a mountain side some blasting had been done and the trail was obstructed by large stones—rocks, in fact. Three peons were removing these, and we watched two men help a third get on his back a stone which my guide assured me weighed 250 to 300 lbs. Once this burden was comfortably settled he tripped off at the usual gait and deposited his load a couple of hundred yards away. This for less than 50c, our money, a day! Truly, the labourer is worthy of his hire.

The frame which endures such toil is nourished almost entirely by beans and "tortillas," the latter being little flat cakes of coarse corn meal, baked on a flat stone or sheet of metal. They are the universal substitute for bread amongst the poorer classes. Such fare is cheap, and other wants are few. The habitation will be formed of "adobe," or sun-dried mud bricks, and will be innocent of bed, table or chair, perhaps of window too. For clothing, cotton garments will suffice while working in the heat of the day, and the inevitable "zarepe," or gaudy blanket, will give needed warmth when the sun is down. For headgear, a great straw sombrero, conical in form; for a raincoat, the skin of an animal or a thick mat of coarse grass. Such duds are often the vesture of a fine form and a face not unattractive though betokening little intelligence.

The prevailing religion of the country is Roman Catholic, but it has no government support. In fact the Church owns no property and occupies land solely as the tenant of the State, which allows the free exercise of all faiths. It permits no religious garb on the streets and allows no processions or other outdoor ecclesiastical function. Notwithstanding these restrictions the mass of the population are loyal adherents of the Papal See, the devotion of the Indians, in many parts, being particularly marked.

The reader will have inferred that the Mexican is a pursuer of pleasure. With other Spanish peoples he shares a love of gambling. He is able to satisfy his desires in this direction by betting at the bull ring and the races, at baseball and other games, at cards and in lotteries. The sale of lottery tickets is very great, and they are dealt in freely on the streets, where they are purchased by all classes of the community. The great lottery is under the management of the government, and is, consequently, "on the square."

In business the Mexican is keen and shrewd. He is a born negotiator and loves to drive a bargain. None of your off-hand methods for him. An important transaction is something to be thought about and talked about for weeks, every inch of ground is stubbornly contested, but each side will exhibit the utmost courtesy throughout the entire proceedings.

The language of the country is, of course, Spanish, a tongue easy of acquisition by anyone with even a limited acquaintance with French and Latin. In the capital, English, German and French are widely spoken, many business men having a conversational knowledge of all three. In all the large shops English is understood, such is also the case in the hotels. We, who own English as our mother tongue, are essentially a one language people, and, considering, our own good enough for anybody are at no pains to acquire another.

Speaking of hotels, it is there that one feels the foreign surroundings. The best hostelries are far from uncomfortable though they are run on a rather antiquated plan. Our hotel, one of the best in the city, was built, as usual, around a court-yard or "patio," the accommodation for each guest consisting of a sitting room, entered from the courtyard, and an adjoining bedroom fronting on the street, with French windows opening on a balcony. In one corner of the sitting room was a fixed bath, hidden by a screen, the tub being the kind in common use before the present porcelain affairs came into vogue. On rising in the morning my bell would be answered by a chambermaid at whom I threw what Spanish I had mastered, viz.: "Baño fria," meaning cold bath; the equivalent for a hot one would be "Baño caliente." The maid would pass the word to the porter who would leisurely proceed to carry cans of water from the distant tap and pour them in the bath. Having hauled the requisite amount of "agua" he would arrange the towels and screens and retire, probably with a request to send the waiter. That functionary would take the order for breakfast, consisting of fruit, rolls and coffee or chocolate. This would be on hand by the time ablutions were ended. When the chambermaid "does up" the rooms the bath is bailed out, there being no waste pipe attached and no way of even tilting the tub to empty it quickly.

The hotels are all managed on the European plan, and as a rule the restaurants attached to them are not very good.

There are a number of independent cafés however where one need have no fear of the cooking. This is done entirely by charcoal, coal being but little used and no gas being available. Coal is very expensive and has to be imported. While this is being written there is on way from Nova Scotia to Mexico the first cargo of Canadian coal consigned to that republic.

Perhaps the high cost of this fuel has something to do with its infrequent use for heating purposes. Very few public or private buildings have provision for heating by any method whatsoever, which seems an uncomfortable state of affairs in a climate where the temperature sometimes touches the freezing point.

Important as is the metropolis, and surrounded as it is by flourishing suburbs, and the populous towns in the Federal District, one has not to go very far to reach wild and wonderful places, little frequented by man and untouched by his works. Less than 100 miles away where a water power is being developed, the natural surroundings are so wonderful that proximity to any large northern city would have made the district world-famous, a mecca of turists and a resort of the neighbouring city folk. The formation resembles giant steps leading from the temperate zone to the tropic lowlands 7,000 feet below. Each step measures from 300 to nearly 800 feet, as sharply cut as a stair, and at each drop there is a water fall of exceeding beauty—five of them in all.

It is an all day journey to this district, accomplished partly by railway and partly by mule team or on horseback. A drive over mountain roads during the rainy season is no ordinary outing, and the traveller is kept constantly on the *qui vive* by the remarkable scenery, by apprehension as to his personal safety and by sympathy for the mules. The six wiry little creatures constituting a team are plied with the whip every inch of the journey to keep them from loafing.

The commercial importance of the country is fast increasing, and its capacity for development is being recognized by others than Americans who have long had great financial interests there. Years ago also, the Germans saw that the business of Mexico was worth capturing and made arrangements to obtain and retain it. That they were successful is proved by the fact that Germany controls the trade of all Spanish-

American countries. She has done this by sending to those countries men who could speak the language, and who were sharp enough to learn native requirements and to supply them. It too often happens that while John Bull is explaining the beauties of the "what's good enough for me is good enough for you theory," Uncle Sam or some other fellow is doing the business. Here is a case in point: The Mexican farmer won't use a two-handled plough. He chops one of the handles off, which makes the implement lop-sided. Now it is waste of time trying to convince Juan that a two-handled plough is the thing. In the middle of the argument along comes the other fellow with a nicely balanced single-handle affair, and which do you think Juan will buy when he requires a new one? Of the greatly increasing trade of Mexico it is worth Canada's while to secure a share and there is a right and a wrong way of going about it.

The governmental system of a country usually receives considerable attention from the critical stranger who often committs unpardonable impertinence in dealing with it. I shall avoid such an offence. Travel is probably as free and as safe in Mexico is in our own country, and law and order are universally and effectually maintained.

Modern Mexico owes its progress and prosperity largely to its great President. In the forefront of the rulers of the earth, past and present, stands Diaz, receiving the veneration of his own people and commanding admiration from men of alien race. Soldier and statesman, of dauntless courage and infinite tact, far-sighted, confident and determined, he has, in a short score of years lifted his country to its present high place among the nations. The world has few men such as he, but where one is found, whether in a palace or in an office, there is a place of quietness and order, where, of a truth, mortals fear to tread, but in whose precincts it is a privilege indeed to serve within the influence of the master mind!

Much more might be said about this great country, even by one whose sojourn was a brief one, but I must stay my hand, lest, like Lawson, I boil over into the advertising pages. Mexico is beginning to receive much attention from the contemporary press. One can hardly pick up a newspaper or magazine without finding it the subject of an article. It must be remem-

bered, that no casual visitor is competent to write accurately of any strange land, and his readers must necessarily see through a glass darkly. No page of nature can be transcribed in print; the prose of city and plain, the poetry of valley and peak, the song of forest and river, punctuated as they are by man and his works can be read understandingly only at first hand. And he who has opportunity to read that living volume most worth reading will find a chapter of absorbing interest under the caption "Mexico."

AUTOBIOGRAPHY OF A BILL.

"Ha! ha! ha! laughed the ten dollar note, as the Directors threw him in. "You may burn me up because I am old, but I've had my little fling. Ashes to ashes and dust to dust is your own destination. But you'll get a hole in the wormy soil instead of a clean cremation."

"When I was crisp and fresh and new, I paid a marriage fee. The parson expected twice as much and sneered a sneer on me. But he didn't know what the bridegroom knew at a subsequenter date, that the bride was dear at any price, which same he learned too late.

"Money to burn! I've been burned before, and done some burning too. The souls I've seared and their records marred would scandalize a few! A tenner isn't very much, but, when you stop to think, it will buy a fair amount of fun and a mighty lot of drink.

"From sinner to saint is a sudden ascent and some might consider it shocking, but a versatile bill has a part to fulfill in an almsbox as well as a stocking. Tariff to heaven—tribute to hell,—head or tail—which is it? Howe'er you essay the narrow way you're like enough to miss it.

"I've paid for the knell of the passing bell and left the soul in the lurch—I've been sanctified a score of times on altars of the church —I've sailed with the chips on Atlantic ships, and, to show my relation to crime, my surface retains unmistakable stains of a sanguinary time.

So, microbe and germ, I'm ready to burn, incense to mammon and lust! Welcome the flash that shall turn me to ash, and the ashes that crumble to dust! Then my smoke shall arise as mist to the skies, and a phantom shall form in the air, The Sign of the Dollar! To dunce and to scholar, ambition—delusion—despair!

A. R. Doble.

WAR FINANCE AND BANKING PROFITS.

AT first thought it might appear that a great war, costing hundreds of millions of dollars, most of which has to be borrowed, would bring tremendous benefits to the banking community. And so, perhaps, it does—for a time.

Speaking generally, banks are never so prosperous as when interest rates are high. Their money, or more properly speaking, their credit, forms their stock-in-trade; and when they can dispose of it at high rates their profits are increased. One of the very noticeable effects of the Boer war was the hardening in interest rates which it brought about. This phenomenon did not pass away when the war ended. After peace was declared money remained dear and scarce. Indeed, it might be said, that this has been the case almost down to the present time. Of course other influences besides the war contributed to this result; some of them may have contributed more powerfully than did the war. There were, for example, the great activity and prosperity in the industrial world and the accompanying enormous expansion in credits. It is a most difficult matter to point out, with any degree of exactness, just what was the effect of the war and what the effect of the other influences; but there are some results which can be traced, and in any case it makes an interesting recital to describe the methods by which capital is provided for warlike expenditures, the sources from whence it is procured and the effects which might be expected to follow the application of the capital to this unusual purpose.

The condition of the world's money markets in 1901 and 1902 enabled the banks in America and in Europe to earn most satisfactory profits. Here in Canada we have seen the banks come forward one after the other with the most gratifying annual reports. Our banking capital has been largely increased, and on the increased amount of stock, dividends at the old rate have been fully earned and paid; and in not a few instances banks have paid a higher dividend on a greater capital stock.

But, although profits were good it has happened that there were some unusual deductions to be made against them. Chief

among these were losses through depreciation in securities. The losses from this cause fell with a greater severity upon the banks in Great Britain.

Ordinarily, bankers view with comparative indifference the fluctuations periodically occurring in security prices. They are interested, it is true, but their interest is largely of an indirect or secondary kind. The securities looked upon as liable to fluctuate greatly, are held by them chiefly as collateral for advances. When securities fell, therefore, they have had to concern themselves only to see that margins were properly maintained. For investment on their own account, they hold consols and other gilt-edged securities, not generally susceptible to violent changes. As matters turned out, the financial evils resulting from the war, bore particularly hard upon the gilt-edged market. If we except that section of the market known as the "Kaffir Section," which was peculiarly affected by the location of the battleground, no class of securities has fallen so persistently as the very best class of investment issues.

For a number of years past it was the custom of the best managed and most conservative banks in Britain to carry their consols at 90. While consols ruled between par and 110, this custom was regarded by many of the optimists as conservatism run mad. But the tone of the comment underwent a striking change when consols broke par on their downward course. By and by, when they were only a little above 90, the point began to be discussed as to whether the banks, would, after all, find it necessary to make provision out of their profits to write them down below that figure. As everyone now knows the fall did not stop at 90; and the consequence was that the banks were obliged to make heavy appropriations to bring their book values down to the market. The matter was a very disagreeable one for all of them, especially for those which had held their consols above 90. More than one of the large banks had to apply over a million dollars before they got their securities down to market values. The money was taken from different sources. Current earnings had to provide a goodly share; rests were trenched upon; and in not a few cases the substantial premiums received on issues of new capital stock were applied for the purpose. These appropriations were extensive enough to constitute a formidable offset to the extra profits which the banks made through the abnormally high rates for money. But there is

this to be said about them. At the various bank meetings, when the executives met stockholders with the disagreeable intelligence, more than one chairman made the explanation that the money so appropriated to write down the values of securities was not necessarily lost; under certain circumstances it might prove to be just as much a part of the bank's reserve fund as it would be if a similar amount had been credited to that fund upon the books. The following illustration will show clearly what was meant by this line of argument: When a bank buys consols or other securities its officers estimate that their investment will yield a certain return. It is this return or yield per annum that figures in the yearly statement of profits, not the rise or fall in the quotations. We will suppose that a bank buys £1,000,000 in consols at par. Although the market quotations do not fall, appropriations are made from profits each half-year, following out a conservative line of policy, till the consols stand on the books at 90. That would call for £100,000. Then consols fall below 90, and the bank sets aside out of profits a further sum of £50,000 to bring them down to 85. After this writing down has taken place the consols stand at £850,000, but the yearly income received from them is exactly the same as it was when they stood at £1,000,000. All that has happened is that £150,000 have been held back from the profits because the stock markets have placed a lower selling value on consols. If they are sold at 85 the bank will, of course, lose the £150,000 outright. But they will not be sold unless the necessity for doing so is urgent; and the necessity will not be urgent if the bank's business has been prudently conducted and the amount invested in consols kept within safe limits. Held indefinitely, till the present glut in gilt-edged securities passes away, consols may, not improbably, fully recover their loss and sell again at par or better. In that event it is plain that the loss of £150,000 would be a loss merely on paper, for a time only. It might be urged that the loss was truly and really made because the bank paid £1,000,000 for that which it could afterwards have purchased for £850,000; but it would be more accurate to say that a speculative profit of £150,000 was missed by not delaying the purchase. Experienced bankers usually come to regard losses of speculative profits with equanimity; they think, and rightly, that it is no part of their business to make money out of price movements

on the stock exchanges. The point in the above illustration is, that the bank sought a certain revenue in its investment of £1,000,000. It got that revenue and it was not impaired by the drop in quotations. The fall in values caused it to hold back certain profits and the earning power of the bank was increased by the employment in its ordinary business of the profits so held back just as much as it would have been increased had they been entered in the books in a different manner.

Thus we see that to the British banks the Boer war, in conjunction with other factors has brought to pass a few years of high interest with consequent good profits; and it has forced the banks to hold back large amounts from profits so as to permit the managements to say truthfully in their published reports to the stockholders "our holdings of consols and of other securities are carried on our books at or below present market values." The increased profits secured through the higher rates are "to the good," and there is a possibility that the market for securities will, in time, recover sufficiently to restore a considerable part, if not all, of the losses sustained.

In Canada the bankers had to meet, in a modified way the same troubles as those which fell on their brethren in Britain. Those troubles did not affect them so greatly, chiefly for two reasons. The amounts invested in securities here are not, as a rule, so large in proportion to the ordinary loans and discounts as is the case in Britain; and as the larger proportion which we have in discounts was employed at much higher rates the depreciation in the value of securities did not constitute such a large percentage of the ordinary profits earned by the banks. It might be also that the securities held by Canadian banks did not depreciate so much in value, but that is a point on which, in the absence of specific information as to the holdings of our banks, ground cannot be taken with confidence. It is assumed that our banks did make full provision for depreciation. Some came out openly and, following the example of the banks in England, informed their stockholders as to the amounts applied; others which certainly met the fall made no mention of the fact in their annual reports, and it was not possible to trace the amounts applied through comparing their net profits with those of previous years. It must be, however, that our banks hold some securities, not actively dealt in on the ex-

changes, upon which it would be a difficult matter to set a correct valuation. For those who were inclined to baulk, this difficulty might serve as an excuse for not meeting the situation as it should be met. While there may be instances of such a course of action the probability is that the situation was properly dealt with on the whole.

But the business of the banks and their profits would be affected by war in other ways than those mentioned above. The hardening in money rates and the fall in securities were not by any means all the results caused by the late war. It is no secret that it affected commerce profoundly, and anything which does, that bears directly on the banking business. The manner in which the Boer war was financed will now be described. In the description will be found the principle on which all wars are financed. It will make plain why it was that the gilt-edged securities had to bear the brunt of the trouble; it will explain also the vast difference in the results when capital is employed for military and for peaceful purposes. The influence of the war in forcing security values down is usually explained as follows: Investment capital in huge blocks was diverted from peaceful to warlike pursuits, and there was created at the same time a very large amount of new securities which had to come on the market and compete with the old securities for the lessened amount of capital available. In other words, the volume of securities in the market increased enormously at the same time that the capital available for buying securities decreased. Under circumstances such as these it was natural that the market should decline severely. As the new securities issued consisted chiefly of the obligations of the British Government it was upon them that the evil naturally fell. The fall which followed affected, of course, not only the new issues but all that were previously in existence.

Whenever a banker is asked for an advance he always wishes to know from his customer what he proposes to do with the money borrowed. When he lends his money he likes to know that it is going into something re-productive; that when the operations of his borrower are concluded the borrower will have in hand not only the capital sum originally borrowed and the interest thereon, but also a further sum representing the profit or increment which the capital earned for the borrower while in his control. For ex-

ample, a bank lends money to a farmer to enable him to cultivate and crop his land. When the farmer has sold his crop, paid off the bank, and settled the expenses of cultivation and cropping, the surplus, if any remains, represents the profit or increment earned by the farmer through the use of his own and the bank's capital. All the capital lent to him as well as what he had in hand himself at the beginning of the season is to hand ready for use in the same or another form on a future occasion; and the country's stock of capital has been augmented by the profit on the growing of the crop. In the same way the banks provide capital for use by nearly all kinds of producers. The producers use the money, pay interest on it, and finally repay it in full, after which there is left in their hands a profit fund which the capital earned while in their control. (It is assumed in these cases that the various ventures all turn out to be profitable.) Bank loans and advances to manufacturers, middlemen, and business men, have practically the same effect. The borrowers borrow because they see profit to be gained. That profit, when it is gained, if it does not represent losses by other business men, is a direct addition to the general stock of capital. From this it is possible to get a tolerable notion as to what takes place when bank capital and other capital is applied to peaceful purposes. Let us now look at what happens when this capital is requisitioned for purposes of war. When great nations go to war everything is done on such a vast scale, and so many complications enter into the situation, that it is a difficult matter to arrive at an accurate knowledge of the effects that are produced by the war on the finance, and on the trade and commerce of the countries involved. Especially with regard to trade and commerce, are there many conflicting influences to consider. Attention will be concentrated pretty much, therefore, upon the changes which war financing brings upon the financial markets.

Both of the belligerent powers have to buy ammunition, rifles, guns, and war material in great quantities; they have to maintain and pay their huge armies, and to provide enormous sums for transportation expenses. The money they require is provided and the war is prosecuted to its end. When it is over, what a different story there is to be told! In this case, there is no such thing as a profit earned by the borrowers on the capital they borrowed. There is not even a return or

restitution of the capital. That would be, forsooth, impossible for the capital has been destroyed,—shot away in the shape of powder and ball; consumed by soldiers who, instead of being busy creating wealth, are doing their utmost to destroy it; used up in the expenses of transportation. One of our foremost bankers used to be continually hammering at his managers to keep down their losses. He would tell them again and again that when they made a loss of $10,000, the bank lost not only the ten thousand dollars but compound interest on it for all time to come. So with the loss of capital in a war. Not only is the principal sum gone but also the interest or increment, which it would have earned had it been put to its ordinary use. As an illustration: The British Government issues £30,000,000 in war loan bonds. The money has got to come from the investors who are accustomed to provide the capital for the ordinary expenses of the Government, or to invest in the securities of companies engaged in some one or other of the great industrial, commercial or transportation occupations at home or abroad. It means, therefore, when the issue is covered that a large part of £30,000,000 which would naturally have gone into the productive channels of commerce and industry has gone into the war to be shot away or consumed; and after the war is over all that will be left will be the debt for the British people to pay interest upon. Of course all the capital borrowed in war time is not destroyed; some is saved through the profits of transportation companies, of army contractors, and in other ways; but undoubtedly a very large proportion is wasted utterly. Similarly, it can be said, that all the capital invested in commerce does not earn profits; some of it is lost through incapacity and ill-fortune, but these losses do not amount to more than a percentage, the great bulk is fruitful.

It was the experience of the British Government in the Boer war that each successive loan had to be floated upon worse terms than those foregoing. It was quite natural that this should be the case. The financiers, who placed the loans, found that such heavy flotations speedily exhausted the supply of capital available. For the first issue, especially if it were well advertised and the patriotic feelings of the people skilfully appealed to, a ready market might be found on favourable terms. The ordinary circle of investors, who take up the hundred and one batches of new securities issued year in and year out, aided

by the speculators who are always ready to buy on borrowed money, could probably take care of it themselves if necessary. But when a second appeal has to be made, this circle either has not the money, or is not willing to find it unless the terms are made more inviting. Accordingly it is necessary, in order both to meet their wishes and to draw into the subscription what might be called an outer circle of investors, either to make the issue price of the new bonds lower or the interest rate higher (the former alternative is usually selected), and perhaps to offer some extra inducement. And so on, every fresh time the market is approached a still wider circle must be invited, and after two or three flotations have been made it is necessary to make the terms of the prospectus tempting enough to draw in people who scarcely ever have anything to do with the investment markets.

Now it is quite clear that some industries must suffer through this dislocation of capital. Credit might be stretched to some extent to make good the withdrawals from certain industries and trades. Then the money paid into the loans would, among other things, produce a feverish activity in certain lines—the manufacture of war material and supplies for instance. But some industries and trades would undoubtedly be deprived of the accustomed accomodation; and if banks and other institutions stretch their credit to supply a vacancy caused by such conditions they don't usually do it for nothing. The rate of interest rises. A rise of 1 per cent. in the rate of interest in England is of more consequence to the mercantile community than a similar rise would be here. If interest rises from 2 per cent. to 3 per cent it means that the interest charge of a merchant or a manufacturer is increased 50 per cent., while a rise from 5 per cent. to 6 per cent. means only an increased charge of 20 per cent. Therefore a considerable rise in interest in the British Isles always brings about a diminution of commercial and industrial activity, because it cuts severely into profits. And anything that lessens business activity cannot but have a tendency to reduce the profits of banks.

When attention is turned to the present war, a marked difference is to be seen in the results of the financing. The London financiers are providing a considerable share of the money for Japan; and Paris financiers are providing money for Russia. In this case also, the capital

which is lent to the belligerents is being shot away and destroyed, but, so far as London and Paris are concerned, it will be repaid to them with interest. In one sense it might be said, so far as the London financiers and the investors who subscribed were concerned, that neither did they lose their principal in the former instance, because they now hold the bonds of the British Government for all that they paid in. The answer to that is, of course, that if those particular persons did not lose their capital the Kingdom of Great Britain and Ireland did. The new taxes imposed to meet the added interest charge on the National Debt have to be paid by the industry and commerce of the nation; part of it, and no inconsiderable part at that, has to be provided in one shape or another by these very investors. But, if the two debtors, Japan and Russia, meet their obligations promptly and honourably, the capital advanced by London and Paris will earn its owners a revenue just as it would had they invested it in pacific channels. Also the burden of interest will have to be borne by the people of Japan and the people of Russia; it will not press upon the people of the British Isles.

But just here another consideration enters. If the Japanese people are overweighed with taxation imposed to meet the war and its charges; and if Japan finds it necessary to largely increase the duty on imports, then it may be that British trade will suffer. The same line of reasoning applies to Russia. If Russia is reduced to financial prostration by the war; if the condition of her people becomes still worse than it is at present, it is evident that her foreign trade will be affected. There are many industries and trades in Great Britain, the United States, and other countries which owe their prosperity, some owe their very existence, to commerce with Japan and Russia. If prostration results in one or both those countries, as it seems very likely to happen, then those industries and trades will be apt to languish.

Then, as regards the financing of this war, it will be remembered that both Japan and Russia had to submit to very harsh terms in the loans which they floated respectively, in London and Paris. Japan had to pledge her customs as security and even on that basis was unable to get par for six per cent. bonds. Russia got 90 for five per cents. Remembering what happened to the British Government, it is tolerably clear

that the two powers will have to submit to be severely squeezed by the money lenders if they make further applications. The general idea is that both will defer their borrowings as much as possible till the end of the war. It is thought that their prospects will be better then than now for making favourable terms. It is possible that the real strain on the eastern money markets, resulting from this war, may not have to be faced till its end. With Russia increasing her paper money circulation, and as some suppose, using the gold that should be held against the paper roubles, and other reserves accumulated for different purposes, with Japan borrowing at home, piling on fresh taxes, and using all available funds, with both countries rapidly dissipating their vast accumulated stores of material etc., it would seem that the money markets of London and Paris have as yet, scarcely been touched. When all these reserves and stores have to be replenished, temporary loans repaid, and the finances of both nations readjusted, when perhaps an indemnity has to be provided, then the borrowings will likely be on a very large scale. Money may have to be withdrawn from European commerce, in the shape of gold, to be buried in Russian treasury vaults. This process, if it occurs, will have a curious similarity in its effects, to the process by which the United States Treasury sometimes buries gold when revenues are greatly in excess of expenditures.

There is yet another aspect of the matter. The money market in London is accustomed to bringing out every year, a certain number of colonial and foreign loans, the object of which is the development and exploitation of the issuing countries. Whenever one of these loans is put through, there nearly always follows quite a considerable purchasing of goods in England by the borrower. It is said that Britains' foreign trade has been helped enormously by this expenditure in England of the proceeds of foreign and colonial loans. When the money market is fully occupied with war loans, when two great nations are bidding against each other for capital, it is almost inevitable that these peaceful borrowers from abroad should be crowded out. It is currently said at such times that the market is not favourable. The Australian colonies have lately met with some discouragement in London on their attempts to float loans. This may have been partly owing to the fact that Australia has borrowed too heavily already. But that ob-

jection would certainly not apply to our own province of Nova Scotia. It is no secret that the underwriters had to take up a very large part of Nova Scotia's loan a few months ago. Here then is another factor which might be expected to have an injurious effect on England's foreign trade. The purchases of English goods by the colonies and foreign countries may become less, because the colonies and foreigners cannot borrow on satisfactory terms in the London market. This has an important bearing on our own prospective borrowings to build the Grand Trunk Pacific.

All these things have a direct bearing on the profits earned by banks. If trade is depressed there is a scarcity of bills; and as transactions of all kinds fall off commissions disappear; perhaps, extra losses have to be met through insolvencies. The Boer war had a curious effect on the bill market in London, which deserves to be noticed.

As soon as the borrowings of the British Government, actual and prospective, had forced interest rates in London up to an attractive level, very large amounts of French capital were transferred across the channel for investment in England. This capital was invested chiefly in bills and in short loans, so that it could be speedily withdrawn if necessary or desirable. For quite a long time there has been a good deal of nervousness in the City as to a possible sudden withdrawal of this money. As long ago as 1901, the London Statist, and other great financial papers wrote concerning the danger. It has been largely with the object of retaining the French capital in London, that the Bank of England rate has been held at a high level. The price of money in London has thus been held above the rates in Paris and New York. One result was to induce American and French bankers to purchase bills of exchange which usually fell to English banks. Had the London rate been lower the English banks would most likely have been left to handle these bills themselves. As it is, the American and the Frenchman have first chance at many of the bills drawn abroad; and as a rate of return is to be obtained on them more attractive than the ruling rates for money in New York and Paris, at certain times in the year they buy them much more heavily than usual, thus depriving English banks of a source of profit.

H. M. P. Eckardt.

CITY AND COUNTRY BANKERS.

WHATEVER may be the difference between the banking system of the two countries, it is evident, as the writer of the following article clearly shows, that the bank managers in the United States resemble their brethren in Canada. Many a manager of a country branch of a chartered bank in Canada "knows everybody in his community, he enjoys the confidence of each, and he deserves it."

The comparison between the city banker and the country banker may be to the advantage of the latter, but when the nervous system of the former is shattered by the strain of his daily work and responsibilities, it is unhappily not difficult to induce the country banker to sacrifice his precious health for the sake of the material promotion resultant from removal to the larger field of labour in the city.

Editor.

The country banker is a much more important personage in his community than the city banker is in the city. In many respects his relations to the people of his town resemble those of a family physician in their confidential character. His knowledge of general affairs is more complete than that of the city banker. The latter soon becomes a specialist, studying the peculiar wants of a class, because in a great city the separate banks almost invariably become identified with a particular line of business. The city banker also has more distractions, and social duties make large drafts upon his time. For the same reason he has not the same amount of leisure to devote to broad questions of finance and trade. It is not the popular view, but we believe a little reflection will convince anyone that it is nevertheless true, that the tendency of a city life is to narrow a man, to run him into a groove, and in many respects leads to superficiality. Business life is steadily growing more complex, the strain is greater, and the fads for relieving that strain are multiplying.

With the country banker it is different. In the first place he is not required to travel five to fifteen miles by trolley or train in order to reach his office, and he does not nervously scan the headlines in the newspapers to discover what happened over night. His nerves are not unconsciously racked by street noise and clatter, and in his office his attention is not distracted by the click of the stock "ticker." He is not a specialist in any particular department of finance whose interests are made or marred by the development in a single industry. The city banker deals in credit somewhat as the railroad ticket--seller deals in transportation. The country banker deals in credit somewhat after the manner of the well-

established and reliable country merchant who knows all his customers and is on terms of more or less close personal friendship with all. The requirements of his customers are more diversified.

We have in mind two bankers whose lives illustrate in striking manner the difference between the two classes. One is comparatively young in years and holds a position of great responsibility in a large city bank which has been connected with many of the large financial deals consummated since 1900. His material success and the boldness with which he carried out the enlarged operations of his bank were the admiration of friends and the envy of competitors. On the surface he looked the personification of health and self-poise. People wondered at his capacity for work and the lightness with which his responsibilities rested upon him. The strain of the last quarter of 1903, however, was too great for his nervous system. To the outside world he maintained appearances remarkably well and pretended an active interest in outdoor sports and social functions. To his intimate friends he was finally compelled to break his mask, and his condition is a subject of serious apprehension. He is now in the hands of specialists, and if his life is prolonged, he has before him the dreary prospect of a confirmed invalid.

The other is the head of one of the most prosperous country banks in Pennsylvania. He has already passed the alloted three score years and ten—he is "72 years young." He is not a rich man, but he has charted the business route of more than one man who has amassed a fortune. He knows every business man and woman in his town, and although the growth of the latter has justified the organization of several additional banks, the growth of the original institution has never for a moment been retarded. He literally knows everybody in his community, he enjoys the confidence of each and he deserves it. No one stands higher than he does in the estimation of his fellow-citizens. He is the repository of business secrets that would have made his fortune if he had been disposed to take advantage of the confidence reposed in him, but he has something infinitely more precious than a great fortune: He has health; he has leisure for the cultivation of the intellectual and spiritual side of his nature, and he has the respect paid to heart and mind, rather than the equivocal respect paid to great riches. —*The Banker.*

CORRESPONDENCE.

Montreal, Sep. 25, 1904.

To the Editor:—

Dear Sir:—Let me ask you to call attention in your valuable Bankers' Journal to the necessity of better arrangements being made by bank managers for the health of clerks. My son is now stationed at and he writes me that the hotel is not fit for occupancy by any one who has enjoyed the comforts of even a modest home.

If directors and general-managers were aware of what some junior clerks have to suffer, surely something would be accomplished in the way of improvement.

MOTHER.

THE COUNTRY HOTEL.

JOHN KNIGHT.

IT is not my intention, in telling tales of wayside inns in Canada, to attempt any defence of travellers, their habits and customs, manner and behaviour. The "bagman" of the period may be all that indignant landlords and affronted landladies picture him. But 'tis the duty of the host to be blind to the peculiarities of a guest. Therefore, the lordly host of the "Crown and Sceptre," or the saucy mistress of "The Golden Goose" has no right to remark upon the fastidious appetite and peculiar temperament of the gentleman in No. 15. The occupant of the room in question is not only the *guest* of the house; he also pays for polite attendance and hospitality. Does not the bill rendered to No. 15 distinctly state the charges for bed, board, and attendance? That bill, when receipted, is evidence of a commercial transaction between guest and host, and the former is fairly entitled to the privilege of insisting upon the latter's fulfilment of his part of the contract in the feeding and bedding of the guest that fate, circumstance, or the decrees of what we term business, have made a traveller of.

No sensible Boniface will then deny me the sweet satisfaction of penning my opinions upon those of his brethren who fail in their duty towards the traveller who is ever and always on the wing, dependent upon the village inn for food and home comforts, and who is thus qualified by actual experience to criticise the bill of fare, and to praise or condemn the housekeeping in his temporary home. I do not wish to reduce the relationship existing between the hotel guest and his landlord to the dead level of a bargain for food and lodging at a given sum. Such an arrangement might disturb many a friendship existing between this wanderer and his roadside friends of the "Golden Fleece," and the "Goose and Gridiron." I love, when quartered 'neath their hospitable roofs, to feel myself a real guest, to be able to listen and laugh at droll stories of guests who exhibit the humorous side of drunkenness; to be able to smoke at my host's fireside, and to narrate tales of distant cities; to feel privileged to commiserate with my comely hostess in her

household cares and anxieties; and to know that if I am forced to complain of the incivility of the "boots," or the sauciness of his sweetheart, the chambermaid, that they will be reproved and myself not condemned for pointing out to my host a weakness in his staff of servants, and a something that seriously interferes with the comfort of his guest.

In my musings by the firesides of wayside inns, I have never yet found any excuse for the landlord who lures the traveller to his house by advertisements rivalling the posters of the circus proprietor, the interior of whose tents never contain one half of the attractions represented in rainbow hued placards on the outside of the canvas. Compared with the deceptive descriptions of some country houses of entertainment for man and beast, and the bills of fare of many city hotels, there is a very refreshing simplicity in the rough exactness of the sign displayed over the doorway of a far western eating house:

Dinner, ...$0 50
A Square Meal, ... 75
A Regular Bust, ... 1 00

Our friend of the west, it will be noted, does not lure travellers into his house by any such artifices as those adopted by the landlord of the web in that pleasing parable of the spider and the fly. The owner of the swinging signboard referred to does not claim for his house that it is the best and most comfortable in that section of the country, with good stabling, first-class sample rooms, and (as an extra inducement) splendid trout-fishing in the immediate neighbourhood. No. He merely states that there are gradations in the cost and variety of the dishes laid before the simple voracity of the devourer of the plain 50 cent dinner, and the epicurean taste of the gentleman who asks for a more brilliant repast at a cost of $1. Such candour is refreshing in these modern times. I am no epicure. I do not object to plain and simple fare. I would not protest against being filled with food and charged for same according to the change in my bodily weight before and after dinner. Such a plan of payment would save me many a dollar when appetite has been swept away by the surroundings of the dinner set before me.

We have all heard the result of the first introduction of the weighing system into a western eating house. A gaunt grim stranger planked his form down on the scales at the din-

ing room door and turned the beam at 165 pounds. He later took a 25 pound weight from his pocket and he left this weight under the table, and on emerging from the room the scales showed the landlord in his guest's debt to the tune of $3.75 for loss in weight.

And now let me enumerate a few of the grievances nursed by professional travellers against the so-called *hotel* of our smaller towns. It may be that many readers of this record of undeserved suffering and discomfort will say that I grossly exaggerate the evils and conceal the redeeming features. Such a sceptic cannot do better than take a winter trip through the different Provinces. If he survive and should return a confirmed invalid, a sufferer from rheumatism contracted between damp sheets, or a martyr to dyspepsia resultant from struggles with half-cooked meats and curious compounds of indigestible messes stuffed into pie crusts of the toughness of ship biscuits, he will readily endorse my statements. If my friend, the sceptic aforesaid, arrives home in good health, he may safely consider his constitution to be more horse-like than human. Or, if he denies that there is truth in my story, then he must have found resting places such as we are in quest of, and he ought, in the cause of humanity, to publish the sign boards of the unknown inns.

Mr. Pilgrim, representing the well-known house of Sharp & Pushem, arrives at the depot of the little town of Sleepyville at 10 p.m. He is landed with all the impedimenta of a commercial traveller on the uncovered platform of the station, and long after the whistle of the train has died in distance he stands in the drizzling rain waiting for help from the *hotel*, the lights of which are observable from where poor Pilgrim is thinking over all the naughty words he learned when a boy. It would be easy for the landlord of the Sleepyville hotel to attend the train in person or to send the inevitable half-witted boy who is just strong enough to raise a trunk to the wheel of his team from whence the same is then permitted to fall within an inch of Mr. Pilgrim's corns. But punctuality is an unknown virtue in Sleepyville. So our long suffering tourist, who has been journeying from the last town, seated next to a red-hot stove, is left on the platform of the station just long enough to lay the seeds of consumption and is then landed at the hotel wet, cold, and hungry. The one public sitting room is not

reserved for the use of travellers. All the available chairs around the beehive stove—the heating capacity of which is being extolled by the landlord to a circle of worshipping yokels, whose smoking stocking'd feet surround and hide the stove rail like huge poultices—are occupied.

Mr. Pilgrim casts a wistful eye at the fire, and then strolls to the hotel register. The landlord's opinion of his stove is reserved, and the eyes and mouths of his auditors scrutinize the new arrival, who is making a painful effort to write his name in such a way with half a pen as to prevent succeeding travellers from remarking, as they look at their rival's specimen of penmanship, "drunk again."

What tends more than aught else to make the modern commercial traveller bold and outspoken in his rough condemnation of some of the landlords of our hotels is the apparent unwillingness of the host to lay aside his pipe and minister to the wants of his newly arrived guest. But Mr. Pilgrim was new to the road, and was withal of a modest, retiring disposition. So, when the proprietor of the Sleepyville hotel, with an interrogatory closing of one eye, jerked out the question, "Had tea?" Mr. Pilgrim, in his astonishment, forgot his hunger in staring at the fire, and stammered out, "Yes thanks," and then timidly asked to be shown to a room. The bed bore evidence of having contained occupants other than the newcomer, and the twelve-by-six towel had to be used as a filter through which to strain the contents of the water-jug, which was lined with a deposit of dust, hair, and embryo tadpoles. The obtaining of a fresh towel cost Mr. Pilgrim his first exchange of pleasantries with a pert and proportionately provoking and dirty maid-of-all-work, who retired from the contest with the now angry traveller with her nose taking a devotional turn as she made scornful remarks upon "drummers" who put on airs.

'Tis needless to say that poor Pilgrim retired to rest, cold, hungry, and miserable. But, like all travellers with quiet consciences, he slept.

The next morning Mr. Pilgrim made his appearance in the banqueting hall. What little appetite he brought to the table was at once dissipated by the survey made of the surroundings during that long interval which always follows the first arrival and second advent of the waitress. The tablecloth had been,

once upon a time, as they say in story books, white. It was now frescoed with maps of the Provinces, outlined in Worcestershire sauce and vinegar, coloured with spilt gravy, shaded with mustard and contributions from the cruet-stand. At the extreme end of the festive board stood a ham fantastically studded with what Mr. Pilgrim took to be cloves or almonds, but which, on closer investigation, proved to be last summer's flies as they rose in a swarm at his approach and carried away the last vestige of Pilgrim's appetite. There was no scarcity of bread. It would seem that the whole strength of the culinary department of a small Canadian hotel when looking for a job, are insanely fond of cutting bread into slices of varying thickness, rendered by time of unvarying staleness. The red table napkin, which obtruded itself from a glass placed in front of Mr. Pilgrim, contained, when opened, some discarded morsels of the last traveller's dinner, and he replaced the rag as the breakfast ordered—two eggs of uncertain age, but no uncertain aroma—was thrust in front of him by his antagonist in the towel warfare of the previous night. As Mr. Pilgrim nibbled disconsolately at some toast, and sipped the soapy coffee which he feared to stir for fear of what its muddy depths might reveal, a fresh-faced, hearty looking countryman swung himself into the seat opposite that occupied by our suffering friend. The stranger delivered an order for beefsteak in a boisterous way; he stretched his legs and planted his big boots upon the slippered feet of the poor commercial traveller. He hacked at and ate meat with audible enjoyment, and when he wanted butter he helped himself with a knife which he had just plunged half way down his throat. Mr. Pilgrim almost forgot his misery in the astonishment he felt at the easy way in which his neighbour performed tricks once peculiar to professional sword-swallowers.

As Mr. Pilgrim left the dining room and filled with tobacco the bowl of a well-beloved pipe, he felt more at peace with Sleepyville and the world at large. Surely, thought he, my fastidiousness maketh me too observant, and he joined the circle round the beehive stove and planted his slippers on the rail among the boots of the early morning hotel loafers. But when a near neighbour, on removing his pipe from his mouth, missed the stove and converted Mr. Pilgrim's slipper into an "expectoroon," that oppressed gentleman rose and murmured: "This grows monotonous," and went up to his *bedroom* to open up the

samples of Messrs. Sharp & Pushem's wares. The want of a clean, airy, well-lighted sample room was not conducive to business, and the merchants of Sleepyville very justly complained that the goods looked dull in colour, and made orders light in consequence.

And in the evening, as Mr. Pilgrim shook the dust of Sleepyville from his feet, and from the car window looked at the receding town, he mentally cursed that landlord, his house and his maid, his bed and his board, and all that is his.

But when, at three out of every five hotels patronized, he met with the same fate, and endured the same privations and hardships, he ceased to grumble, and learned to revel in misery. He even found himself making light of sufferings which once made life itself a burden, and, when chatting and smoking with other travellers, delighted in comparing notes with them upon the amount of trouble, misery and inconvenience it was possible to cram into two days sojourn at Sleepyville.

But this reconcilement with his lot was followed by a change in Mr. Pilgrim's habits, manners, and appearance. He ceased to be the spruce, well-dressed, polite representative of an old and respectable firm, and was often found careering over the *road* assigned to him in frantic haste, roughly dressed, half washed, and half fed. And many of the merchants, who judge of a mercantile house by its representative, began to hint that Messrs. Sharp & Pushem must be dropping behind in their line of goods. That fellow Pilgrim doesn't look so neat and gentlemanly as he did when first on the road. And so they try new firms, and patronize Frank Freshman, representing Messrs. Newcome & Co.

Landlords of country hotels may rave over this somewhat highly coloured picture of Mr. Pilgrim's experience, but no one will deny that the surroundings of a commercial traveller's daily life on the road are demoralizing in the extreme, and I claim that his degeneracy is resultant from the neglect of Mr. Boniface to keep his guest clean and well fed.

Where are the baths, stationary or movable, without which no hotel can claim a travelling Christian as an inmate? Why is the traveller regarded as a lunatic who asks for enough water to wash his tired *body* in? Where are the sweet smelling beds and snowy table linen peculiar in some country inns, whose proprietors cannot boast of one-fourth of the income netted

by some lazy landlords of Canadian taverns? Where are the clean, well-lighted sample rooms required to display the wares of the commercial traveller to the best advantage? And where is the landlord who will emulate the good sensible example of the hosts of English commercial hotels who set aside the cosiest parlour and the choicest bedrooms for the gentlemen of the road, whose periodical visits prove more lucrative as a certain income to their owners than all the chance travellers journeying that way?

Would similar comforts be lost upon Canadian travellers? I trow not. The stout, active, and good-looking young bagman from Montreal or Halifax has just as keen a relish for a good dinner and a comfortable bed as his English prototype, and those wealthy employers who reap the produce of Mr. Pilgrim's labour in due season have not the appreciation and enjoyment of life which is given to the man who is ever in pursuit of that which the world calls business.

I have written down naught in malice. Nay, I am ready to admit that the Commercial Travellers' Association may find their self-appointed task an easy one. For I have pleasant memories of comfortable hotels where even sickness was endurable; where the kindly faces and soft hands of my hostesses have tended to my recovery in a greater measure than strange doctors; where a genial host has made the days of enforced idleness pass like a pleasant holiday. Let such hotels be patronized.

There is a landlady of mine who will (if she does not burst a blood vessel during the perusal of this complaint) address me thus when next we meet: "Well, what do you fine gentlemen of the road want?" As I am nearing my end and cannot hope to see her again, let me briefly answer her now, and then fall a martyr in the cause of the travelling public. The pioneers of trade and commerce who seek by road, rail and river to form a connecting link between the centres of supply and manufacture and the regions of demand, want—

Food—Well-cooked and well served.

Bedrooms—The windows of which will open and when open remain so without the support of the leather-covered bible presented to the proprietor of the house by the Society for the Propagation of the Gospel.

Beds—Clean, comfortable, and well aired.

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JOURNAL

OF THE

CANADIAN BANKERS' ASSOCIATION

JANUARY—1905

EDITORIAL NOTES

Swift the stream of years
Rolls to Eternity.

Happy New Year

The advancement made by the Dominion of Canada during the past year, if the statistics of the clearing houses, and the trade and shipping returns indicate the general condition of the country, has been most satisfactory. There may have been better years, but the reports of the majority of the banks have demonstrated not only their success in profit-making, but general activity in the business of the Dominion.

Prosperity, contentment and happiness sums up the situation as reported from the various provinces, and the condition of things warrants the prediction made by several general managers of Canadian banks that the present year has opened

auspiciously and promises to be marked by industrial progress in every part of the Dominion.

Paid-up Capital

At the close of October the paid-up capital of the chartered banks amounted to $79,747,011, while the circulation of their notes showed a total of $72,226,306. The balance available for circulation, therefore, appeared to be only $6,985,372. But the table prepared by the Canadian Bankers' Association, in the same month, showed the amount of notes of other banks on hand when the said returns were rendered to Ottawa amounted to $6,537,701, thus increasing the total balance available for circulation and making the margin of money ready for use, if needed, over $13,000,000.

The Law of Banking

A new book by Sir John R. Paget, Bart., K. C., the eminent Gilbart lecturer on banking, cannot fail to be interesting to bankers, and his latest work, "The Law of Banking," adding, as it does, to an already established reputation for good work, should find a place in every banking library. In a prefatory note, Sir John Paget remarks that the process of settlement by legislation or decision seems slow with regard to banking law, and he pleads, as an excuse for the somewhat argumentative character of portions of his book, and for obtruding his personal views, a large number of points still open to question.

The contents of the "Law of Banking" are of much value to the banker, defining as they do his duty under many difficult circumstances. Some idea of the scope of this valuable volume may be gathered from the following subjects dealt with by Sir John Paget:—The Current account, Relation of Banker and Customer; Current Account with a Minor; Deposit Accounts; Cheques generally; Marking Cheques; The Pass Book; Forgeries; Valuables for Safe Custody; The Collecting Banker; Securities for Advances; Realization of Securities; Mortgages; Guarantees.

We have received a letter from Sir John Paget, of much interest to lawyers and bankers, and the same will be found in the Correspondence Column of this issue of the Journal.

If you deny me, fie upon your law.
There is no force in the decrees of Venice:
I stand for judgment: answer; shall I have it?

The judgment of the law, as rendered by Judge Gaskill in a jury-waived session of one of the Superior Courts in the United States, is interesting to bankers.

It seems that Ann Lawler, now about seventy years of age, opened an account in a savings bank, forty years ago, in the name of her niece, presumably with the view that the niece should have the money if she outlived her aunt. In 1867 the niece died; but Ann Lawler continued to live and to deposit her savings to the credit of the niece, until, after forty years, the bank book, in which the original entry was made in 1867, shows no less a sum than $2,300 standing in the name of the deceased niece.

A few years ago, the administrator of the estate of a certain half-sister of Ann Lawler's long-departed niece made claim to the money. Litigation ensued; the heirs of the niece prepared to cry fie upon the law if they were denied possession of the money saved by Ann Lawler for a niece, who only died 37 years ago. We do not wish to be cruel and ungentle to the heirs of Ann Lawler's very dead niece, but we cannot help finding satisfaction in the judgmen rendered by good Judge Gaskill, and critics of the occasional curious convolutions of the law in the neighbouring country will have to admit that, in this instance, there is "force in the decrees" of the United States.

A Wise Judge

We venture to wish Mistress Ann Lawler a happy New Year and have to thank her for obtaining a legal decision of interest to bankers on both sides of the border. There should never have been any dispute as to the ownership of her savings, and, when we remember that she has passed the three-score years and ten allotted to the majority of men and women, we almost feel inclined to regret that Judge Gaskill did not include in his judgment a severe scolding for the impatient and covetous heirs of the niece who died so many years ago.

The report of the Banker's Clearing House, London, England, shows 1904 to have been a banner year in the total amount cleared. What of the cry of decadence in the trade and commerce of the British Empire?

London (England) Clearings.

The continuity of the series of articles on Canadian Currency and Banking, by Professor Shortt, of Queen's University, is unavoidably broken.

History of Canadian Currency, etc.

During the last summer, the gifted writer of these articles had practically no vacation, and, acting under medical advice, he is now reducing the volume of work undertaken by him in order to obtain necessary rest from his labours.

We hope the interested readers of Prof. Shortt's "History of Canadian Currency and Banking" will not begrudge him this respite from work, especially as he has promised to continue his chronicles of early Canadian banking in the April number of the Journal.

The Junior Bank Clerk

At the request of a bank clerk, we cheerfully insert in the Journal his ideas of the duties of the large army of those engaged in performing simple routine work in the banks of the country. The writer of said article modestly disclaims any desire to be known as its author, but the evidence of his earnest belief in success being achieved by patient plodding, industry, faithful performance of daily duties, and obedience to orders from senior officials, is unmistakable. The lesson he would teach is old and yet ever new and simple—to do one's duty.

The Circulation of Notes

If the circulation of bank notes has any significance in determining the condition of the country, there is good cause for rejoicing over the November figures in the Government abstract of bank statements, furnished by the chartered banks of Canada to the Department of Finance. Not since the confederation of the provinces has the circulation reached so high a point as during the month of November, 1904. The record figures, $74,216,072, exceed the highest point reached in the preceding year by two millions of dollars.

At the same time the increase in the paid-up capital of the chartered banks has been equal to the growth in circulation for the past three years, and although some of the banks during the autumn months reached the limit of circulation allow-

ed to them by law, there was a good margin left in the remaining banks to supply the needs of the country.

Yet it is very evident that if the country continues to progress at the same rapid rate as at present, it will not be long before the banks will have to make much larger additions to their capital, if the present system of limiting circulation to capital be adhered to.

Two years ago several of the leading papers called attention to the possibility of the circulation of the notes of chartered banks proving inadequate to the demands of a great and growing country. Since that time the increase has been remarkable enough to warrant the subject receiving the careful attention of bankers, even if there is no immediate cause for anxiety.

An All-Night Bank

Some of the leading New York financiers and commercial men have decided to organize what will be known as the First Night and Day Bank and Safe Deposit Company. The capital stock has been subscribed, and the bank is to be situated near Fifth Avenue and adjacent to the big hotels, restaurants and the theatre district.

One of the reasons given for this enterprise is that women returning from the opera require a place of deposit for their diamonds and jewels. Another reason is the trouble experienced by "a well known man," whose name is not given, in raising a much-needed sum of money in the middle of the night. We are not told what the sudden financial emergency was.

The list of subscribers to the capital stock warrants belief in the genuineness of their faith in the success of this novel bank. At the same time it seems strange that the demand for money after the business world of New York is virtually sleeping is found to be strong enough to promise a dividend to investors in an all-night bank.

That occasions arise when inability to raise the wind after the banks are closed is a cause of worry and delay cannot be disputed, and it would appear that our bustling neighbours have once again shown the world how to save time, even if they spend money for the desired economy.

The recommendation made by the United States Secretary of the Treasury that trust companies of large capitalization should be permitted to incorporate under federal laws, has been well received by the chief officials of companies whose business is conducted in such a way as to command the respect and confidence of people in search of reliable trustees and executors. The president of one of the oldest and most important trust companies in New York is quoted by a Wall Street journal as saying:

Pertinent and Timely

"So far as I know, the recommendation of Secretary Shaw was not in response to any request coming from trust company officials. Speaking for myself I should think that such a law would be welcomed by such trust companies as do a strictly trust company business, provided that incorporation under federal laws was restricted to companies of that character. Trust companies that are doing a real trust company business would, I think, be glad of any system which would distinguish them in the public mind from other companies which are doing a 'department store' banking business."

In the October number of this JOURNAL attention was directed to the decrease in the figures of the Canadian clearing houses for the first six months of the year. The editorial paragraph in question was unjust to the fair and flourishing city of Vancouver, as will be seen from the following table obtained from the manager of the Vancouver Clearing House.

Vancouver Flourishing

1903		1904.	
Jan.	4,560,468	Jan.	5,231,271
Feb.	4,038,710	Feb.	4,898,735
Mch.	4,358,887	Mch.	5,385,553
Apl.	4,940,368	Apl.	5,436,749
May.	5,155,347	May.	5,977,818
June	5,787,250	June	6,875,815
	28,841,030		33,805,941

As frequently stated in the editorial columns of the JOURNAL, the free circulation of American money in the Dominion of Canada, which is the cause of periodical fits of grumbling among some of our bankers and business men, is now receiving the careful attention of the Canadian Bankers' Association, and it is more than likely that an arrangement will shortly be made with the Department of Finance which will result in replacing with Ca-

United States Money

nadian the American silver now finding free circulation in this country. A statement has been prepared by the Association, showing that the profit to be derived from the seigniorage on Canadian coin would repay the Dominion Government for the expense incurred in collecting American silver and shipping same across the border, and the Minister of Finance can be relied upon to do what is best for the interests of the country.

In the meantime, senseless suggestions upon the same subject are numerous. A member of Parliament is reported to be contemplating the introduction of a bill, making the circulation of United States money in our country a criminal offence. The discussion of such a measure in the Canadian House of Commons would only occupy time which ought to be devoted to useful legislation, and any representative of the people known to be capable of starting foolish discussions ought to be restrained by Act of Parliament from talking or writing—except in the silly season and 'tween sessions.

Division of Labour

The biggest bank in the big city of Chicago is about to try a new experiment in handling its big business. The customers of the bank are to be classified and formed into groups or divisions, representing the various large branches of trade. Two senior officials of the bank will have control of each division, and these officials will be expected to keep themselves thoroughly posted in the lines of trade or commerce conducted by the customers belonging to their division. In this way each divisional superintendent will, in course of time, become an expert in some one or more branches of trade and industry, and his special knowledge will tend to minimize the bank's losses.

It would seem to be an excellent idea, and the results will be watched with interest by other big banks.

What Next?

Among the inducements offered to the public by the projectors of a new bank in the United States is a free legal department. The president of the bank, it is said, surrendered a lucrative practice to assume his new duties of dispensing free legal advice to all the patrons of the bank.

Whatever may be said or thought about the propriety of a lawyer using his professional talents for advertising a bank,

there can be no question as to the novelty of the feature. The advice given at this free legal department may stir up strife and promote litigation, but, as an advertisement, "advice gratis" is even more attractive than the notice issued by a certain bank in a town where the competition for deposits was running high: "Ladies, while engaged in shopping, may leave their children with the bank manager."

A Quarrel With Modern Work

About a quarter of a century ago Mr. Martin J. Griffin, Dominion Librarian, whose facile pen has given pleasure to so many thousands of his countrymen, wrote for a small literary club in Halifax to which he then belonged, a paper entitled "A Quarrel with the Nineteenth Century." Mr. Griffin complained of the want of thoroughness in the work of the modern masons, artisans, mechanics and labourers, and advanced as one cause of the lack of durability in modern buildings and bridges when compared with those of the earlier centuries, the virtual abolition of the old system of apprenticeship which compelled even the most skilful workman to serve his master for a full term of years before being given freedom to call himself a master mason, artisan, mechanic or smith and to become an employer of labour.

The same subject has lately arrested the attention of another gifted student of the time in which we live. The *Boston Herald* says:

"President Eliot has a poor opinion of the durability of the works of this age, and he can see no good reason for boasting thereof. The archaeologist of 2000 years hence will, in his judgment, find few remains of the civilization of to-day. Our structural works will have brief permanence compared with those of ancient peoples whose architecture, utensils and records are now objects of our study. Even the books on which we so confidently depend to preserve the knowledge of our civilization are in their material substance too perishable to serve the purpose. Our suspension bridges and veneered sky-scrapers are not made for all time, but for early decay. Our subways he regards as likely to survive almost everything else that we construct so swiftly for present service. We do not see how this fate of being forgotten can be escaped. There is so much to do, and so little time in which to do it, that we have to be satisfied with the things that will last while they serve our need. If the Panama canal is ever dug, perhaps traces of the work will survive to interest the generations that may navigate the air instead of the sea."

Whatever we may have accomplished in the fields of thought and literature, art and science, it seems clear that high

standards of excellence in architecture and constructive work of the kind referred to by President Eliot, and the gifted Canadian writer, Mr. Martin J. Griffin, are not among the happiest distinctions by which the modern ages of the world have an advantage over the earlier.

No one will be bold enough to claim that the modern skyscrapers are erected with the practical purpose of transmitting to posterity the benefit of ennobling models. At the same time, no one will feel disposed to quarrel with the philosophical conclusion arrived at by President Eliot, of Harvard University, who suggests that we should be "satisfied with the things that will last while they serve our need." Yet we cannot help regretting that it is as it is. The old fashioned system of apprenticeship gave to the world examples of thoroughness in material and workmanship which make one regret lest it should be true that the days of good work are passing away.

It will be noted by bankers that even our books are too perishable to preserve the knowledge of our civilization, and the records of unclaimed balances.

Banking and Currency

Messrs. Butterworth & Co., the English law publishers, have just issued a book bearing this title. The work is by Mr. Ernest Sykes, B.A. (Oxon.), Lecturer on Banking and Currency to the London Chamber of Commerce, who states in his preface that his intention is to provide a text-book for students reading for examination held under the auspices of the Institute of Bankers, etc.

The introduction to this new book on an old subject is written by Mr. F. E. Steele, who very wisely says that to introduce a book as "instructive" is not enough. It must do more than instruct; it must interest, if it is to survive. "Banking and Currency," by Mr. Sykes fulfils these conditions.

But there is a lot of food for thought over the truism in the opening sentence of Mr. Steele's introduction to the work of his friend and fellow-writer:—"*There is only one school in which the practice of banking can be properly learned, and that school is—a bank.*"

By the majority of Canadians Lord Strathcona is only known and admired for his philanthropy and the splendid donation to his Queen and the Empire during the war in South Africa. In Scotland he is also valued for sage advice to young men. The *Glasgow Weekly Leader* says:

Lord Strathcona

The life and success of Lord Strathcona will ever be an inspiration to young men struggling upwards through long years of toil and obscurity. To them the story of his rise from junior clerk to millionaire peer will ever possess all the charm of romance, and the charm will be all the greater because it is no fairy tale they are studying, but an actual record of effort and achievement. The principles which have guided Lord Strathcona throughout his long and arduous life are principles which all aspiring youth can make their own. On one occasion he was asked for some words of advice to young men, and this is what he said: "Be content with your lot, but always be fitting yourself for something better and something higher. Do not despise what you are. Be satisfied for the time, not grumbling and finding fault. If you want to get higher, to a better position, only cheerful perseverance will bring you there; grumbling will not help you an inch. Your future really depends almost entirely on yourself, and is what you make it; I would like to impress this fact on you. Do the work yourself; don't wait for friends to use their influence on your behalf; don't depend on the help of others. Of course, opportunity is a great thing, and it comes to some men more frequently than to others. But there are very few it does not visit at one time or another, and if you are not ready for it, and have not prepared to welcome it, that is your fault, and you are the loser."

As one among the many lessons in the Chadwick case, some of the American financial papers are pointing to the failure of national bank examiners to detect such frauds as were perpetrated on the bank at Oberlin. The Chicago Banker says that, on a purely banking basis, Mrs. Chadwick was never at any time a reasonable risk, and adds, "her career is a blight upon the fair banking name of America."

Bank Inspectors versus Bank Examiners

She has certainly again demonstrated that there are bank inspectors in the United States who do not inspect, and it is

not surprising to find that opinion in the neighbouring republic is being expressed in favour of asking the Controller of the Currency to explain why bank examiners have apparently failed to ascertain the condition of the large number of national banks which have collapsed within the last year *before* instead of after the said banks were compelled to close their doors.

Some critics of the condition of things even go so far as to hint that the examinations are not as thorough and searching as they should be, and that the bank examiners, although not as a rule political appointees, are sometimes regarded as such.

There may be cause for this outburst against the bank examiners, but many Canadian bankers can personally testify to the high character and great ability of many of the American bank examiners.

If there is a lesson in the Chadwick case for bankers, bank examiners, and the American public generally, there is also one for our own people—to adhere to the system which has given to this Dominion the services of men, who, by reason of years of experience, careful training, and accurate knowledge of the business of our banks, are so eminently fitted for the important work of periodically inspecting their affairs, and making independent and fearless reports thereon. Without having any desire to meddle in matters which concern us not, and without wishing to express an opinion upon the merits or demerits of the American bank examiner, we may certainly pride ourselves upon the possession of the Canadian bank inspector. His duties are not always of the most agreeable character; his position entails much discomfort, and occasional exposure to hardship and danger; but he must find comfort when reflecting upon the value of the knowledge he obtains of the business of the country, and incidentally of the worth of men serving the bank he represents. The best testimony of the thoroughness of the examinations made by the inspectors of Canadian chartered banks is to be found in the accurate knowledge of affairs possessed by the general managers of our banks, and the very limited number of institutions wrecked since the passage of the present Canada Bank Act.

The experience of Canadians with private banks and private bankers has not left any cause for regret that the Dominion Government, when framing the present Bank Act, inserted the following clauses therein:—

"Every person assuming or using the title of 'bank,' 'banking company,' 'banking house,' 'banking association,' or 'banking institution,' without being authorized so to do by this act, or by some other act in force in that behalf, is guilty of an offense against this act.

"Every person committing an offense declared to be an offense against this act shall be liable to a fine not exceeding one thousand dollars, or to imprisonment for a term not exceeding five years, or to both, in the discretion of the court before which the conviction is had."

Private Banks

The people of the United States are at last also thoroughly aroused to the danger of permitting their private bankers to enjoy the same rights as private business men. Our neighbours have no law now for the good government of private banks, and, while there are men of splendid reputation, honourable in their dealings and of undoubted means, conducting private banks in the United States, whose business should not be destroyed by legislation resultant from agitation, these same private bankers would undoubtedly welcome a change in the condition of things. At present, there is nothing to prevent any reckless adventurer in the State of Indiana, or elsewhere, from embarking nominally in the banking business, and later fleecing the poor dupes, to whom the magic sign "bank" means security.

Among the many suggestions made is one that private banks should be authorized to commence business with a paid-up capital as small as ten thousand dollars.

Those engaged in preparing measures for state supervision of private banks have delicate work assigned to them, and it will be interesting to note the outcome of their labours. While it is their duty to see that the large number of private banks now in existence are not unjustly treated, it is equally encumbent upon them to realize that it is dangerous in the extreme to permit a man, or any body of men, without sufficient capital, and the requisite training, to have the custody of the savings of the people.

From the report of the Geological Survey of Canada, lately issued, it appears that, in the past eight years, some ninety-seven million dollars' worth of gold has been extracted from the Canadian Yukon Territory. Although nearly all the precious metal has been obtained from the claims in a few creeks in the Klondyke District, the product from which is apparently decreasing, mining activity in the Yukon is said to be on the increase. The introduction of machinery for scientific mining operations has resulted in the working of several abandoned claims, and the profit resulting therefrom seems to be satisfactory to the operators.

Canadian Gold

The day of the placer miner with his pan has passed. We no longer hear of fortunes being made in a short space of time. Since 1900 the output of gold from the Yukon Territory has declined several millions each year. An American financial journal, however, in the course of some comments upon the condition of things in and around the Klondyke, says that the Yukon is experiencing the same thing that has resulted to all other countries, and, in the place of the solitary worker with pick and shovel, experienced mining engineers and capitalists are now coming forward for the purpose of acquiring properties, and taking therefrom the gold which can be obtained by scientific development of the mines.

The President of the First National Bank of Chicago predicts an early reduction in the rates of interest paid for bank deposits. He is reported to have told the members of the Minneapolis Club that the ever-increasing amount of money lodged with the banks must be distributed in commercial channels to ensure a fair income to the banks and to encourage the growth and prosperity of the people. The profitable employment of deposits is sometimes almost impossible, even in Canada, and the keen banker realizing the conditions sees the necessity for caution in naming a rate for money, which, to quote from an advertisement sometimes seen in country newspapers, is earning interest even while the depositor is sleeping.

Interest on Deposits

A Deserved Tribute

At a dinner given in Toronto last month by Mr. H. C. McLeod in honour of his friend and former fellow-worker in a Canadian bank, Mr. James B. Forgan, now the president of the First National Bank of Chicago, a pleasing incident was the tribute of thanks and veneration tendered by the latter to his mentor in the school of finance, Mr. Fsyhe, general manager of the Merchants Bank of Canada.

At the opening of an admirable address on the banking system of the great country of which he is now a distinguished naturalized citizen, Mr. Forgan referred to his early teacher in terms of the warmest affection, and in simple and earnest words assured Mr. Fsyhe, who has trained quite a number of the successful bankers of the Dominion and the United States, that to him the guest of the evening owed a debt of gratitude impossible of repayment, and that his success was entirely owing to the sound banking and lessons of prudence and caution taught by Mr. Fyshe. The deserved tribute to the sterling worth and recognized ability of Mr. Fyshe was warmly applauded by the many bankers present at the dinner.

London Still Leads the World

In the report of the U.S. comptroller of the currency, made early in December, there occurs the following passage, following a reference to the striking progress of the country. "In spite of all this, however, we do not seem to be taking our proper rank and position in foreign and international banking. One of the chief difficulties encountered by all merchants and manufacturers in extending their trade with foreign countries, and especially those of South America and the Orient, is the lack of American banking facilities and the necessity of doing this business very largely through European houses."

This statement merely gives expression anew to the sense of dissatisfaction frequently manifested that New York fails to oust London from its primacy as the world's greatest financial centre. The survey which we are able to give in this number, by a Viennese professor, of the methods employed in the financing of the commerce of the world through London, contains incidentally further evidence that it is not New York alone which is jealous of London's financial position. Whether Dr. Hellaner's prediction that the end of this primacy of London is

approaching be fulfilled soon or not, his article is a witness to the care with which the conditions, on which that primacy depends, are studied on the European continent.

Mexico and the Gold Standard

In our last number, the movement in the direction of the establishment of a gold standard in Mexico was discussed by Professor Flux. Rapid progress in the direction indicated has been made in the meantime. By the middle of November a bill was presented to the Mexican legislature, and was quickly adopted by both houses. This Act empowers the Mexican Government to take steps to make the silver currency conform to a gold standard. The existing silver dollar is retained, but its value is to be made equivalent to that of 75 centigrams of pure gold, which is almost identical with half a gold dollar of the United States, and is somewhat above the average exchange value of the Mexican dollar in recent years. The restriction of coinage of silver is, apparently, the measure chiefly relied on to effect the rise in value decreed for the silver coins. For exportation, coinage on private account will still be permitted, but not for internal circulation, while the importation of Mexican silver dollars into Mexico is to be prohibited. Many details remain for determination, but the principle of a gold standard has been adopted more readily than might have been anticipated.

J. T. P. K.

THE AGENCY OF THE ENGLISH BANKS IN INTERNATIONAL TRADE PAYMENTS*

BY PROF. DR. JOSEF HELLAUER.

THE pre-eminent position in commerce with foreign countries which England had attained at the epoch when the development of modern commercial methods took place, has had as a result that that side of banking business, whose function is to effect the payments required by oversea trade, has reached its most flourishing development first on English soil. London, the centre of commerce between Europe and other parts of the world, became also the centre of the connected exchange business. London was, indeed, adapted for the purpose, as no other place is, on account of the prodigious supplies of capital which were gradually concentrated there, in consequence of its dominant position in the trade of the world. That dominant position, as a world power in commerce, has, indeed, already passed from London in great degree. The increasing volume of trade between Europe and other parts of the world no longer needs the centralization of agencies at a single centre. In the matter of exchange business, however, London has still in the main the dominant position, and if, by degrees, competition in this business increases, the power of its great fund of capital, on which its position in the world depends, is still so overwhelming, and finds such important support in the inclination of merchants in other lands to effect their payments through London and in English currency, that it will be long 'ere this position of sovereignty will be wrested from that city.

It cannot be denied that certain advantages accrue to all participants through this concentration of exchange business

* Translatled, by kind permission of the author, from an article in the *Jahrbuch der Export Akademie des K. K. Oesterreichischen Handels-Museums* for 1902-03.

An appendix of illustrative documents is omitted in view of the fact that most of them would be familiar to members of the Canadian Bankers' Association.

in international commerce at a single centre. The English currency has, as a result of this concentration, been so well introduced, and has achieved such an international character that it plays to-day a role in international exchange business corresponding to what would be the function of a universal language in verbal intercourse between natives of all countries. It is sufficient to establish relations with London, in that city the drafts of the exporter are made payable, there the importer makes what he owes available. For an Austrian exporter it would be much less convenient, if his customers beyond the seas remitted to him through the national banks of all the various European countries, than if he has, in the main, only to deal with drafts on London in pounds sterling. Further, the foreign merchants, who handle both import and export business, and are in relations with many countries of origin and destination of goods (both European and extra-European) derive a great advantage from the fact that it is everywhere the prevailing custom to remit in drafts on London and to accept payment in like drafts. For such merchants, it is enough to have a banker in London, to know the conditions of London banking business alone, and it becomes possible to them to balance receipts and payments in London without the necessity for reduction from one currency to another, and, on the other hand, to adjust their drafts in their own countries without any especial difficulty (securing a market for their drafts against exports, and a means of effecting payment of moneys due at regular rates of exchange).

The English themselves, of course, derive the greatest advantages from this state of things. The wealth of the nation is increased thus every year by many millions, which the whole world pays in tribute to English bankers for their services. But the English merchant also gains, in that he has the foreign banks in his own country and settles his accounts with them, and above all with his correspondents in foreign countries, in his own (native) currency, an advantage over his competitors in other countries who have important difficulties to overcome in these respects. The English merchant secures, through these foreign banks in his country, easier credit, ease in transacting business with them, needing no intermediary in that business; he suffers no exchange losses in effecting his payments, and saves expense in exchange business with them, and, not least among

his advantages, he finds an important aid in the knowledge his bankers possess as to the credit of merchants in foreign centres.

These advantages are so important in comparison with the position of merchants in foreign lands, that it must seem entirely natural if, at the present time, the other commercial nations of Europe are endeavouring to emancipate themselves from dependence on London as intermediary in foreign payments, and to establish their own international banks for the purpose. The ever increasing scale on which oversea trade is carried on will finally render this decentralization possible, even as it has already made an organization in commercial affairs and for ocean transport, independent of London, a possibility. As yet, however, the difficulties in the way of such independence in banking are very serious. In the first rank of hindrances comes the inclination of foreign mercantile houses, already referred to, to make their exchange payments through London exclusively. The fewer the subjects of any one country who are engaged in foreign commerce, the less can a national bank of that country hope to secure a change in this direction. Added to this are the natural efforts of the English banks to exclude foreigners from gaining a footing. Among other means employed is that of contriving to draw the important business houses of such a country into their own circle of clients, and thus deprive the effort at independence of its best support.

Whatever be the final outcome of this trading competition, the English banks to-day play the far and away most important part in the exchange business of the world. The business methods which have been developed by the English in exchange banking are thus those which prevail, and the foreign banks outside England have accepted them for the most part, often even including the technical terms employed. These methods, principally, will form the subject of what follows.

Only a few brief remarks on the general features of the business methods of the English international banks need be made by way of introduction. There exists a thoroughgoing division of labour among the banks according to the regions with which they have connections. Especially fundamental is the separation of East and West, expressing the great contrast of commercial relations and customs in these divisions of the world. A third principal group may be named in the great English colonies whose commerce is European in char-

acter,—Australia, South Africa and Canada. Within each of these three groups there is found more or less of specialization according to countries. This is least marked for the distant East, India and Eastern Asia, the same banks having, for the most part, business relations with the entire region. Though the most important bank for India is unquestionably the Chartered Bank of India, Australia and China, and for Eastern Asia the Hong Kong and Shanghai Banking Corporation, the former operates also in Eastern Asia, the latter also in India. The four greatest South American banks, the London and Brazilian Bank, the British Bank of South America, the London and Rio Plata Bank and the Bank of Tarapaca and Argentina, limit their operations in the main to South America. They further restrict the principal part of their business severally to particular countries. Thus the two first deal mainly with Brazil and La Plata, the last with Argentina and Chili, while the London and Rio Plata Bank has selected the La Plata as its special field of operations. As for the three great English colonies referred to, each is served by special banks, which have entirely specialized in the business of the particular colony. In the same way lesser commercial regions across the seas, of more or less exclusive nature, have their special banks, as the Colonial Bank in the case of the West Indies, and the Bank of British West Africa for Western Africa.

Each of the banks has its Head Office in London, with the exception of the Hong Kong and Shanghai Banking Corporation, whose Head Office is in Hong Kong, and the Bank of British West Africa whose Head Office is situated at Liverpool, the headquarters of the trade with West Africa.

Beyond the seas, the banks act partly through their own branches, partly through agencies, in which capacity importing and exporting houses which carry on a subsidiary banking business, often, nay, generally, officiate. These mercantile houses carrying on a banking business have, naturally, the greatest importance in the smaller places, where it would not pay the banks to establish branches, as is the case in many localities in Central and South America, and as occurs also in the East. Incidentally it may be noted that such mercantile houses carry through their banking business with Europe in part quite independently, and that there are among them numerous non-English, and in particular German, firms. In

this way a direct and not unimportant competition arises with the exchange business conducted through the English banks. Many banks have no branches, but conduct their business entirely through agencies. In particular, many of the English international banks draw European countries outside England, or the commercial centres of North America, within the limits of their business by means of agencies, in order to make use of their established business connections in conducting the exchange business of such centres with those regions abroad which these banks have selected as their own particular field of operations. Thus the London and Brazilian Bank has agencies in Lisbon, Oporto and New York.

The English merchant, engaged in import or export trade, mainly in both, has often, for each region of his commercial operations, relations with a bank operating in that particular region. Such direct relations can also be established from the continent, but are in general only possible to the larger mercantile firms, those which carry on an important business with the region in question, and can secure corresponding credit, if one disregard simple collection or fully secured business. Smaller firms, or those which undertake only isolated mercantile operations with distant lands, are, on the other hand, compelled to secure the services of a bank at home, through which they can attain to the enjoyment of the credit required. Through a current account, or other arrangements entered into with the English bank, the operations of that bank as intermediary, and in financing their business, become available to the less important exporting or importing houses. The expenses are not always as high for business transacted in that way as the full commission charges of the home bank amount to, for the English banks frequently quote lower rates to other banks than to merchants.

As to what concerns the material conduct of the intermediation of English banks in international payments, the greater part of the business is materially based on bills of exchange. It is therefore this document which calls for first consideration, in the shape in which it is used in foreign trade.

Bills of exchange are classed either as Documentary or as Clean drafts or bills. The former are accompanied by the shipping documents, that is, by the Bill of Lading, a copy of the invoice, and, generally, by a document attesting the taking out

of a policy of marine insurance. The complete set of bills of lading must be presented; all the copies prepared for that transaction. For delivery at the end of the voyage, all the duplicates need not be sent to London at once, but the different copies are forwarded by different ships, each with a duplicate of the bill of exchange. If the London bank is to take action (securing acceptance or payment) in such a case on the first copy, the foreign bank which has received the entire set ordinarily certifies that all the copies are to hand and will be duly forwarded. Such a certificate would run, for example, as follows: "All negotiable vias of the Bill of Lading relating to this Bill have been received by The Bank, Santos, and will be forwarded to The Bank, London, by following mails." The Bills of Lading are commonly drawn in blank, but may run in favour of the bank, or of the consignee of the goods, in which last case, if action involving any risk is to be taken by the bank, the client on whose behalf it is taken must enjoy good credit. As a document relating to the marine insurance, either the original policy of insurance (as generally in export business) or a certificate of the insurer as to the fact of insurance (generally in import business) is employed. This document also needs endorsement (usually in blank), otherwise it runs to bearer. In import business, in which very frequently the insurance is effected in Europe, this insurance-document is often wanting, but, on demand of the English bank which is to effect the payment, a declaration as to the notification of the insurance in Europe is forthcoming. A Bill of Exchange unaccompanied by documents is designated a "Clean Bill." Documentary Bills are by far the more common.

The documents are to be delivered to the drawee either against acceptance (abbreviated as d/a or D/A), or against payment (d/p or D/P). The appropriate mark, placed on the bill by the remitter, or a letter of notification, will indicate which course is to be followed. In the case of 'documents against payment,' the actual payment frequently occurs before the maturity of the bill, (if the purchaser, either because the ship has arrived, or because he has resold the goods, needs the documents thus earlier). Naturally a rebate of discount is customarily given in such a case (in so far as it is not a case of interest-bearing bills, in which case the earlier payment carries with it a saving of interest automatically). The rate of

discount at which rebates are calculated is generally less than the Bank Rate (frequently 1% less). Bills with 'documents against payment' form the principal item in the class of business, to be discussed later, which consists of purchase of and advances against bills. The English banks generally make only a partial advance on bills with 'documents against acceptance,' and even this is not very easy to procure. This does not hold, of course, when the drawee is a bank: in such a case it is easily understood that the stipulation 'documents against payment' is not made.

Bills of exchange are either Sight, or Time bills, (the latter mainly with a currency of 60, 90, 120 and 180 days) both when drawn on foreign places and when drawn thence. In export business to Eastern markets, bills bearing interest are a marked feature. The drawee has to pay, in addition to the amount of the bill, interest from the date of the bill to the approximate date of its reimbursement in Europe, and in this way the exporter secures a refund of his loss in interest, which arises from the interval elapsing between his outlay for the purchase of the goods in Europe and the repayment of that outlay by his correspondent in the East. The clause in the bill which deals with the point runs as follows:—"With interest at..... per cent. per annum added thereto from date hereof to approximate due-date of arrival of the remittance in London," or otherwise to the same effect. Such interest-bearing bills are always drawn in pounds sterling, not in foreign currencies, a custom based on the above-mentioned aim of a compensation for loss of interest on the purchase price of the goods, which price is expressed in English money.

There are also used in commerce with the East, bills drawn in the different Eastern currencies. This contrasts with the case of South and Central America, which, in their export trade to Europe, employ the pound sterling as the regular unit of value, though drafts may be made in francs or marks on occasion. Drafts made in connection with the import trade of these oversea countries are in the vast majority of cases drawn on London in pounds sterling.

In case the bill, drawn in the currency of a European country, in connection with its export trade, be payable in a country which has a different currency, the drawee can secure the payment in the currency of his own country at a suitable rate of

conversion. The rate of exchange at which the conversion is effected is that quoted by the collecting bank abroad for the purchase of drafts on Europe at the date of the collection. The possibility thus arises of employing for conversion either the rate for sight bills or for any one of the various classes of long bills (60, 90 days, etc.). Sight bills are naturally quoted higher than those at 60 or 90 days' sight, and it is therefore advantageous to the buyer to pay at the rate for the longest currency possible. For this reason the term of the bills, the quotation for which is to be employed for conversion, is defined in the draft itself. In general the sight rate is used in Eastern trade, while in the trade with South and Central America, the 90-day rate is ordinarily paid. The clause relating to the rate of conversion to be used may run somewhat as follows:—"Payable at the current drawing rate for the.... (the collecting) Bank's Drafts at (Demand or x days' sight) on London."

The payment of the invoices is effected either through the buyer of the drafts or by a bank designated by him, generally an English bank. In the European export trade, the drafts are usually made on the buyer, in import into Europe on London banks. In consignment business the direction of the exportation determines that of the draft in the majority of cases, it being drawn direct on the consignee, but a common custom is to draw on European, and especially on London, banks; in import trade, an important part is played by direct drafts on the great importing houses, which act as consignees, in addition to the indirect drafts on banks. Remittances, *i. e.* bills which are purchased by the buyer or consignee for the purpose of sending them to the seller or consignor as payment, do not figure at all in the European import trade, and play no very large part in the business of importers oversea. Payment of invoices in transmarine trade is mainly effected by means of drawing bills. Only in those regions to which sales are made without a fixed term of payment, does the remitting of bills attain to importance. The importer, in making use of this method, can either secure his bills from exporters, thus obtaining Documentary Bills, a method often practised in Central and South America, where on grounds already set forth the remittance has far more importance than in the East, or he may buy from a bank a bill drawn *ad hoc*, as is customary in Eastern markets. The latter class of drafts are known as Bank Bills or Credits, since they

are drawn by one bank on another in virtue of standing credit arrangements. They are, moreover, Clean Bills. In similar fashion one may purchase from the banks telegraphic remittances, known as Telegraphic Transfers (abbreviated T. T.) or Cable Transfers; these are orders remitted by a cabled despatch to European banking centres, to pay a definite sum to a person designated.

It may be seen from the foregoing that the principle function of the English banks as intermediaries in payments in international trade is to be sought in the receiving of drafts accompanied by documents, whether for simple collection, or for securing payments, or advance payments, or in the accepting of drafts of the seller or consignor of goods, as commission agents. The collection of the amounts of invoices in return for documents or drafts is not in question. The payment of invoices does, however, take place, under instructions from foreign buyers, against delivery of documents to sellers in Europe, without using bills, but it is usual in these cases for the bank to draw on the oversea client, and it thus secures its payment. These, the best of all conditions of payment, occur, of course, none too commonly.

As indirect drafts on the bank are employed mainly in import trade, the collection business of the banks can only be important in connection with export trade. The mere 'collecting' is not even here the most important function to consider, since the exporter in most cases seeks, by realising on his drafts against export, to procure ready money as soon as possible. It is in the trade with South and Central America that the collecting business has greatest importance.

For this branch of their operations, the London banks lay down regulations, partly sent out in the form of offers to their clients, partly communicated at the same time as the acknowledgment of receipt of bills for collection. Among these regulations may be noted here the exclusion of any guarantee against losses which may occur in the course of effecting the collection. The banks declare themselves as 'not responsible' for the documents which pass through their hands, for the goods of which they may have to accept and again to make delivery, for the accidents, neglect, and solvency of and remittance by their agents or correspondents abroad,—and occasionally more of the same kind. Not all banks regard it as necessary to add at least

that they will protect the interests of their clients with all needful care.

In all such regulations, clear instructions are required as to what is to be done with the documents, what in case of the bills not being honoured, what is to be done with the goods in case of non-payment, and at what rate rebate of discount is to be allowed in case of payment before the maturity of the draft. In many cases there is also required or recommended the insertion of a suitable clause defining the rate of exchange at which payment is to be made.

Naturally the commission and expenses of collection are also dealt with in the regulations. The rate of commission is not uniform for all places where collections may be made, but ½% appears to be the most general rate for places where the banks have their own branches. Where the bank has no branch and must utilize its correspondents, either a higher commission is stipulated for directly, or a separate item covers the commission charged by the correspondent. For drafts of small amount, a minimum charge is fixed (perhaps 5s., maybe 2s. 6d. or 10s.). In case of non-payment of the draft, some banks reduce their charge for commission (perhaps by one-half), others charge the same amount whether the bill is paid or not. Incidental expenses include postages (often charged at a fixed rate, 2s. 6d.), stamps, etc., charged separately. For exchange on out-of-the-way places a deduction may be made for the diminution in the sum collected in the course of remittance from such a place to the chief business centre of the country. In general it may be regarded as the English custom in the export trade that the buyer pays the cost of getting in the money involved. This only expresses the principle found in our * commercial law that the buyer is bound to make payment to the seller at his place of abode free of cost. For the rest it may, and generally does, happen that the amount of the bill is made to cover costs of collection, but another custom also prevails, namely, to demand and commonly to note on the draft, that "charges for collection to be added," or, as the phrase runs for Australia and South Africa, "remitting exchange to be collected."

* i.e. The Austrian law, agreeing here with the English. In the Province of Quebec payment is due at the debtor's (buyer's) domicile, cf., Civil Code, Art. 1152.

This simple collecting business, as already stated, is by no means the most important function of the London banks. Their most important function consists far more in financing the over-sea business in both directions. But it is said that the characteristic function of exporting and importing merchants, especially of those operating in Europe, lies not only in their intermediation in trade, but also in their financing of the business. And that is perfectly true. But the capital of the merchants themselves would fall far short of the extent of their financing operations, did not the banks come to their assistance with banking capital. The great intermediaries in international trade finance their affairs only in part with their own capital, and in part with the help of the credit which they can secure from banks on the basis of their resources and business. The greater part of their customers would fail to secure the support of the banks, or to secure it in adequate measure.

The manner of the financial operations of the English banks in oversea trade, and the organization developed in connection therewith, differs as between export and import trade.

In the export trade, the beforementioned collection business introduces in part the financing element in view of the advances made in the course of the business. For the most part it is not the low London rate of interest which is charged on these advances, but the much higher rate quoted by English banks in connection with their foreign business. The ordinary rate for this oversea business is 6 per cent. This is not to be regarded as purely an interest charge, since the banks in the case of an advance of the whole amount of the bill impose no charges besides this, either for commission or for postage. There is here, not only an ordinary interest charge, that is a compensation for resigning to another the use of capital and for the risk associated with that act, but, in addition, a recompense for the exchange operations of their branches or agencies abroad, which generally cost much more than similar establishments in Europe (on account of the higher cost of management).

After the receipt of the amount of a bill held for collection, and on which an advance has been made comes the final accounting, the striking of the balance between the advance together with interest on the same, and the net proceeds of the bill, that is, the amount received on it less commission and postage and other expenses incurred, should there be such. If the

high over-sea rate of interest, a rate including, as shown, a commission, be charged on the advance made of part of the amount of the bill (i.e., in the case of "bills sent for collection and advanced against"), the commission for collection to be reckoned on the entire amount of the bill will undergo some modification as compared with that charged for a simple collection ("Bills sent for collection only"), generally being reduced by one-half, with the possible further omission of any separate postage charge. If, however, the advance has been charged for at the ordinary English interest rate, as also occurs, the commission and charges are made at the same rate as for "collection only." Such partial advances on bills for collection are especially frequent in South American trade, a department in which D/A drafts are particularly common.

In the case of sterling drafts with an interest clause of the kind given above, according to which the drawee is to pay interest up to the estimated date of receipt of the covering remittance in Europe, the collecting bank, which has made an advance, receives its interest charges from the payer of the draft, and at the rate demanded by it on over-sea business, since the drawer has stipulated for that rate in the bill itself. If, in such a case, the bank advances the entire amount of the bill to the exporter, no final account remains to be settled with the receiver of the advance, who may equally be regarded as the seller of the bill, and this is particularly clear if the payment of the draft takes place at the demand rate. Nevertheless, such final accounts are very commonly rendered. The seller is debited with the advance made and interest at the rate used in the oversea business up to date of the accounting, credited with the amount of the draft received, which, if not a sight draft, and thus only due at a later date, will be discounted at the ordinary rate for English bills (a lower rate than that at which interest was debited). Commission and postage do not come in question, according to the principles laid down above as to the use of the rate of interest charged in foreign business. Only in the case of drafts of less than £100 sterling has a collecting charge of 2s. per bill been recently established. The small differences which commonly arise between the amounts credited and debited, and which may be either in favour of the receiver of the advance or against him, remain for settlement. Naturally, such an account must of necessity be

rendered in the case of a bill of which only a part of the amount has been advanced.

If an English bank buy sterling drafts without an interest clause, they must, of course, be discounted. The rate employed is the same, or at any rate something like that already discussed as the interest rate for oversea business, so that in the deduction of the discount, commission and postage are already included, and no separate account is needed. A difference arises between the case of drafts payable in English colonies in which the English currency is the legal local currency, particularly Australia and South Africa, and that of drafts payable in a different currency, in the case of which a conversion of the sterling amount into that other currency must be made at the rate quoted for drafts by the collecting bank.

In the former case, the sale of the sterling draft could be understood as a simple discounting in which the higher discount rate for oversea drafts must, of course, be used. We find here, not merely the factors considered previously in the oversea interest rate, but the operation of the rate in reducing the value of the draft. It is much more a value-reducing co-efficient which is involved, operating as substitute for a rate of exchange, through which the differences in value between the pound sterling in England and at the other end of the world find expression and comparison. This part of the interest rate is to be regarded in the same light as the percentage 'perte' in which Paris quotes sight drafts on other centres in which the franc is also the currency unit. Inasmuch as the entire interest rate, serving in this case as a deduction from the sterling amount of the draft, is to be regarded as compensation to the bank for the exchange of a sum of ready money in pounds sterling in England against a sum to be collected in a colony and at a later date, as in the cases already considered where rates of exchange are quoted, this interest rate is known under the name 'exchange.'

Under such conditions, the level of the exchange quotation, on a given place and at a given currency, is dependent on the estimated value of the means of payment at the place and at the currency in question, as it results from the demand and supply for such means of payment and the credit conditions of the locality on the one hand, and, on the other, on the tightness of money in England, which, with the last-named con-

sideration, determines in the main the level of the interest rate for deferred payments. The amount of the interest rate which serves as basis can be seen by comparison of exchange rates for drafts of different currencies. Thus the Standard Bank of South Africa, on 16th May, 1903, quoted buying rates on Cape Colony as follows: $\frac{1}{2}\%$ for sight, 1% for 30 days' sight, $1\frac{5}{8}\%$ for 60 days' sight, $2\frac{1}{4}\%$ for 90 days' sight, and $2\frac{7}{8}\%$ for 120 days' sight. The difference in rate for 30 days difference in the currency of the bill stood thus at $\frac{1}{2} - \frac{5}{8}\%$, or on the basis of an interest rate of 6 to $7\frac{1}{2}$ per cent.* On June 8th of the same year the bank quoted, for bills of the same currencies as above, the following series of rates: $\frac{3}{4}$, $1\frac{3}{8}$, $2\frac{1}{8}$, $2\frac{7}{8}$, $3\frac{1}{2}\%$. Here the differences are from $\frac{5}{8}$ to $\frac{3}{4}\%$, representing a rise of the interest rate of $1\frac{1}{2}$ per cent. per annum as compared with the date previously cited. How the exchange is affected by the varying estimates of the values of bills payable in different localities, is shown in a quotation circular of the Bank of Africa, Limited, in which demand drafts on Cape Colony, Natal, Orange River and the Transvaal are quoted at $\frac{3}{8}\%$, Rhodesia at $\frac{1}{2}\%$, Beira (where the sterling currency is also employed), at $\frac{7}{8}\%$. 90-day bills are quoted at 2, $2\frac{1}{8}$, and $2\frac{1}{2}\%$ respectively, for the localities named. The exchange on Australia and New Zealand is naturally higher than on South Africa, on account of the greater distance of these countries and the consequent greater loss of interest in collection. For small bills a minimum charge per bill is made, *e. g.*, 3s. 6d.

According to English usage, the seller, as already noted, has the right to require the buyer to bear the expense incident to realising the value of a bill of exchange. Not only the simple charges of collection are included in the expenses thus borne by the buyer, but the total amount of the bank's charges (interest included) for an advance of the entire amount of the bill. By means of such indemnification of the cost of financing the draft, the buyer guarantees the seller at the same time interest on the value of the goods sold, and is entitled, in respect of this, to claim the discount allowed for cash payment. The seller usually adds to the amount of his draft the expenses

* The rise of the rate for later dates is not always strictly proportional to the time interval, since the risk of the receiver of the draft is not always increased in that proportion, but rather in a higher degree (e.g. under very uncertain industrial conditions).

of realising on it, *i.e.*, in the case considered above, the exchange, and, drawing for the augmented total, has the computed value of his goods remaining after deducting the exchange charges. Should he not have followed this course—maybe through not knowing the amount of the expense of realising on his draft when making it—he can yet transfer the expense to the buyer, by requiring the English bank to pay him the full amount drawn for, while it recovers the expenses from the drawee independently. In this case there is added to the bill the note—"Exchange to be added," or, following the amount of the draft, the wording of the bill will be, "with Exchange for Negotiating Bills on the Colonies at the current rate and stamp duties."

In the case of sterling drafts, payable in countries where the actual currency unit is not the pound sterling, the discount deduction from the amount of the bill does not express the exchange-rate, and the amount must be converted into the currency of the place of payment for the purpose of collection. The seller is not concerned with the rate of conversion. He has to endure the deduction of the discount from the amount of his draft, and that is all. But it may, nevertheless, be a matter of inconvenience to him, as exporter, if his correspondent abroad is not in agreement with the bank on the subject of the rate of exchange. In this connection, especially, may be quoted the example of the practice of London banks in handling exchange with India, namely, in specifying at the time of purchase of drafts that the conversion of the sum involved is to be effected at the rate quoted by them at that date. This leads frequently to trouble with the buyer later on, since he is disinclined to submit to that conversion rate, in case it is higher than that quoted at the date of the payment of the draft. In the case of South American bills, the clause dealing with the exchange rate runs, commonly, as follows:—"Payable.... at..... Drawing Rate on Day of Payment.....," excluding this predetermination of the rate. Thus, the Bank of Tarapaca and Argentina, Lim., quotes Buying Rates for Bills on South America as follows:—

	Sight	30 days' sight	60 days' sight	90 days' sight
West Coast (Chili).....	2½ %	3 %	3½ %	4 %
East Coast.....	2 %	2½ %	3 %	3½ %

The difference of ½% for each month's difference in the currency of the bill corresponds to an interest rate of 6% per

annum. The fact that drafts on the East Coast are quoted ½% lower than those on the West Coast is explained by the less distance, and consequent smaller loss of interest, in the former case. The fact that 90-day bills on the West Coast are quoted at 4% suggests that the loss of interest involved in the collection of such bills is estimated by the bank to run for eight months. The period is arrived at through the consideration that the 90-day bill, with time of transmission added, will need four months before it is collected; the proceeds must be remitted to London, and, employing 90-days'-sight drafts for the purpose, yet another four months must elapse before the amount is available in London.

For bills drawn, not in pounds sterling, but in the currency of the country of payment, as in the trade with the East, if the exporters propose to make price-quotations in Eastern currencies, they may secure from the London banks buying rates for bills in the same form as the quotations of exchange rates on Eastern countries on the market. These rates relate to the various periods of currencies of drafts, and include not only compensation for loss of interest, but also commission and expenses.. For example, the Chartered Bank quoted on 28th August, 1903, rupee drafts as follows:—Demand 1s. 3 $^{15}/_{16}$d., 30 days' sight 1s. 3 $^{27}/_{32}$d., 60 days' sight 1s. 3 $^{3}/_{4}$d., 90 days' sight 1s. 3 $^{21}/_{32}$d. The differences of the rates, $^{3}/_{32}$d., expresses one month's interest. That gives a rate per annum, on the sum involved, of 7 per cent.

The buying-rates of the banks, given in their circulars, of course refer to general conditions, and to those alone. A good customer can commonly secure better terms. In such cases, the employment of the smallest fractional quotations enables the banks to give expression to every condition which may influence the value of the bill. Such are, the solidity of the seller and of the buyer of the goods, whether the Bill of Lading is "clean" or "marked," whether the shipment consists of goods readily damaged or the contrary, the soundness of the vessel in which they are shipped, etc., etc. It is, naturally, for large transactions that the need of very fine quotations is felt most.

All the cases of the financing of commerce treated so far, whether that of a partial advance or an advance of the entire amount of drafts, or of their purchase by the banks, are to

be found, not only in connection with sales for export, but also in consignment business, if the consignor draws on the consignee in order to secure an advance, whether he draw for the full value of the goods, or for a part only, as may be agreed.

The bank will only make an advance on bills handed over to it, whether of the whole or of a part of their amount, and whether they cover goods sold in advance or forwarded on consignment, if it have adequate security or sufficient reason to grant to the shipper or recipient of the goods the needed credit, or, as generally happens, if security be given sufficient to cover part of the advance and the customer enjoy satisfactory credit in addition. Such security may be found in the property or deposits of one or both of the parties to the bill. The principal and most important security which the bank gets, however, is the bill itself, the documents accompanying it, and the goods on which it is based.

In direct transactions between the shipper and the lending bank, the bill bears, after the goods are shipped, only the signature of the drawer. The receiver of the goods has not yet accepted it, and, on account of the distance of his place of abode, acceptance cannot be immediately procured. The lack of this acceptance is more than compensated for by the documents accompanying the bill, which are pledged to the bank by delivery to it. If these documents are to be released only on payment of the bill, the bank remains in possession of its valuable pledge until its money is repaid to it. If, on the other hand, the documents are to be released on acceptance, the signature, and the legal obligation it involves on the acceptor, replace the documents themselves as security. That banks do not always regard this substitution as one of value for value, or entirely satisfactory, is readily understood. In that case a second form of pledging of the goods is employed, which may at least partially replace the former pledge through handing over the documents. It consists in a written declaration, on the one side by the shipper, on the other by the receiver, that not merely are the goods pledged as security to the bank for its advance so long as it holds the documents, but also later, and, after the sale of the goods, the proceeds of the sale shall be likewise pledged for the same purpose. In accordance with this undertaking, the receiver must hold the documents at the disposal of the bank at all times, and, when he has procured

delivery of the goods, these also must be so held; a separate account must be kept of the disposal of the goods, so that the goods and their proceeds are shown in his books in their character as pledges; he must keep the proceeds distinct from all other of his property, and make them over to the bank as soon as possible, though the bill be not yet due.

The letter, sent by the shipper to the bank, which effects this pledging, is called a Letter of Hypothecation. After mention of the bill of exchange and the documents, as also of the advance received on them, has been made, follows the declaration that, "the above shipment, the goods and the proceeds thereof are to be treated as specially hypothecated to you by way of collateral security." In place of this formula, there is used the more precisely descriptive clause: "The said goods in the meantime, and their proceeds, or any part thereof, to be held by Messrs... (the receivers) in trust, on your behalf, for payment of the said sum." In consignment business, the bank receives the right to have a share in the arrangements for storing, fire insurance, manner of effecting sale and everything else which is regarded as necessary for its security. In all such Letters of Hypothecation, the shipper binds himself, in case the business does not proceed regularly, as in the case that his correspondent abroad does not pay or does not pay in full, or a forced sale is necessary, to make good any differences, expenses or losses.

Frequently there is handed over to the bank by the recipient of an advance on a bill of exchange, in addition to the Letter of Hypothecation, a letter addressed to the person to whom the goods are shipped, notifying him of the arrangement with the bank, and challenging protest. This letter is forwarded by the bank to the person designated, accompanied by a memorandum addressed to itself, setting out the particulars relating to the hypothecation. On the return of this memorandum, duly signed, and acceptance of the bill, the documents are handed over to the person to whom they are destined. The substance of the declaration contained in the memorandum referred to is: "We hereby engage, to receive and hold the said goods in trust on your behalf, to have them duly stored and insured against fire, and to remit the proceeds, as and when sold, direct to you." In London such a letter is commonly designated a Letter of Lien, in other countries

(*e.g.*, in Australia) it is called a Letter of Trust. The word "Lien," rarely used in ordinary English, is derived from the Latin *ligamen* (verbal form *ligare**), and is here intended to imply that the right of property in the goods is tied up in favour of the bank. The legal signification of lien in English is the right of attachment of the property of another person, thus a pledge, with ultimate right of seizure and retention.

The practical importance of this written pledge of moveable property, which the taker of the pledge hands over to some other person, cannot be compared with the security offered by a regular deposit of goods in pledge, though the legal importance of the declaration of the receiver of the goods, that he holds them, not as his property, but "in Trust" for the account of the bank, must not be underestimated. Yet the banks often wish to resume possession of the goods pledged, so far as that can be done without interfering with the completion of the business. Against a Letter of Lien, they deliver the documents to the merchant to whom the goods are shipped, it is true, so that by means of them he may either resell the goods in anticipation of arrival, or may obtain delivery of, and warehouse, them. In case they are not sold before arrival, they must be stored in a public warehouse and a warrant covering them be obtained, and this warrant must be handed to the bank as a further security.

Should the exporter who seeks an advance have standing relations with one or more importing firms, in accordance with which hypothecatory letters are customarily made out in favour of a bank, he may send the bank a "General Letter of Hypothecation," in which he pledges to the bank once for all, under stipulated conditions, all shipments of goods of which he may notify them in accordance with these arrangements.

It is clear that such hypothecation, under a Letter of Lien, will occur more frequently in consignment business than in the case of definitive sale of goods for oversea shipment. The commission agent, not being the owner of the goods, will far more readily accept the conditions laid down in the Letter of Lien than will a buyer of the goods. Only a weak buyer, unable to obtain credit otherwise, will permit himself to be subjected to such conditions at the bidding of the seller. In

* Murray. The Oxford English Dictionary.

consignment business this trustee relationship of the consignee towards the bank has a further importance. The shipper secures, through the hypothecation of the goods to the bank, not only a means of obtaining an advance on his shipment, but, in addition, a control over the commission agent, the bank exercising this function in its own interest, and being provided with all the power needed for that purpose.

Should the bank from which an advance is requested regard it as important to see that the export business, on the basis of which the bill is drawn, and therewith the bill itself, is completely in order, in addition to requiring the acceptance of the bill by the drawee, whose credit is, perhaps, known to the bank, the making of an advance, or payment for the bill, may be deferred till after the acceptance has been procured abroad and duly forwarded. Or, a part of the sum involved may be advanced, the remainder being paid over after acceptance. The notification that the acceptance has been procured may be made by cable. Even then the interval necessary, before such notification can come to hand, is so long that the shipper is unwilling to wait for it, and this deferment of an advance occurs, in fact, only exceptionally. It is practically a sign of lack of confidence in the exporter, in spite of the fact that he offers the shipping documents as security. This security is, however, not a complete one. Quite apart from the fact that the bank is not generally in a position to exercise any control over what may be contained in the boxes or bales mentioned in the bill of lading, there remains, even in the case of a correct statement of these contents, a danger of loss through the necessity of a forced realization, and, even in the transportation, risks are involved, and the bank must, therefore, reinforce the credit by which the shipper obtains an advance on the basis of his signature and his documents. All the preceding discussion presupposes the shipper's credit with the bank, for even the estimation, above referred to, of the acceptance of the consignee is only something accessory, reinforcing the credit of the shipper, not, as a rule, the chief source of that credit. If the credit of the shipper ranks very high, the bank would, naturally, pay ready money for bills offered, if desired, even without documents, or at any rate on D/A drafts, though not drawn on houses of the first rank, without the written hypothecation which has been discussed above.

Occasionally, the banks demand from their clients who are in the habit of obtaining advances on export drafts, their signature to a printed form by which the bank is empowered, once for all, to deal with the bills handed over to it, with the documents, and even the goods themselves, as it may think fit, for the purpose of making the repayment of the money advanced as secure as possible. The receiver of the advance further expressly declares himself to be bound, not merely to repay the amount received, but all expenses and compensation for any trouble to which the bank may be put outside the regular collection of the draft. Thus, the bank becomes empowered to require, for example, acceptance with stipulated conditions, or additional endorsements; it may, if the drawee do not duly accept or pay the draft, or if he suspends payment before the date of maturity, cause the goods to be sold in whole or in part; if the drawee desires to pay before maturity, it may make a rebate of discount, as to the rate of which a definite agreement beforehand is usually made, since it goes to the account of the recipient of the advance; for greater security, additional insurance may be effected at the shipper's cost; further, a declaration is made that it retains its right of action on the bill of exchange in spite of the security given, and need not abandon the security in spite of taking action on the bill, so long as full indemnity is lacking. The bank accepts no responsibility for the agents whom it must employ to deal with the goods for its security, such as brokers, auctioneers and others, and, on the other hand, binds the shipper to pay all expenses arising in such a connection, and the ordinary commission on the sale of the goods. On the basis of this general letter of authority and obligation the shipper then obtains an advance on his bill of exchange.

The advance made to the shipper by the bank can also rest on the credit enjoyed by the consignee abroad with the paying bank, or with some other which has undertaken the negotiation, or on security given to such bank. He may obtain credit on account of the solidity of his firm alone, or, in addition, because he has bound himself to make payment against the shipping documents or to give a letter of trust and later, perhaps, a warrant. Cover can, naturally, also be afforded by his deposit account, or securities, at the bank.

Payment in Europe follows by means of a Letter of Credit,

which the bank, or one of its branches abroad, delivers to the importer there from whom it received its instructions, or which it sends directly, or through the agency of its European house, to the shipper. In this letter of credit, the bank declares itself prepared to take in payment, up to a fixed amount, bills drawn by the shipper on his oversea correspondents as value equivalent of a shipment of which the particulars (class of goods, amount and time of shipment) are specified; that is to say, it opens an exchange-credit. This declaration of the opening of a credit is ordinarily limited in its scope by a second, in which the bank reserves the right to annul their undertaking to pay on retaining the respective drafts. Further, it is usual for it to declare that the shipper remains under obligation though his signature as drawer of the bill, in spite of its payment of the bill, which payment is made by it only as buyer of the bill. In a similar letter, a declaration of readiness on the part of the bank to take up any bills drawn on a correspondent abroad either without mention of a definite sum, or within the limit of a maximum specified in round figures, may be made. The acceptance of obligation to take up bills is, in such a case, not admitted. It may, however, be involved in the former case (the restriction of the credit to a special line of business and a limited amount).

So long as the bank does not surrender its right of action against the seller, this acceptance of obligation possesses but partial value, in no sense amounting to a definite provision for the exporter. The very nature of dealings in bills of exchange renders it easily intelligible that it must be a very exceptional case in which the bank renounces its right of action against the drawer of the bill—this, moreover, requires a separate declaration in due legal form, which has adequate value as against a first-class bank. When the bank is prepared to undertake such a thorough grant of credit, the means adopted will be that payment of the invoice of the shipper is made by a cheque drawn on the bank itself, the documents being handed over, and, in so far as the buyer abroad is not sufficiently covered by security or deposits, the bank draws on him in turn. In this case, too, it is customary to make use of a letter of credit, expressing the bank's guarantee of payment, which, in this instance, would be unconditional.

Though the opening of an exchange-credit commonly implies no abrogation of risk to the exporter, it is yet very highly valued, not only because the exporter is secured thereby against the exhaustion of his credit, but also because his credit and bona fides are thereby demonstrated to his customer.

The second important kind of financing carried on through the English banks consists in an arrangement for the shipper to draw on the bank, which declares its readiness to accept such a draft. By this method it does not make payment at once, but takes up the bill on maturity, and, as it is generally stipulated that the bank must be covered before the date of maturity, it makes no actual advance. Yet this mode of financing is far more advantageous for the European exporter than the buying of remittances. The most important feature is that a draft accepted by an English bank of repute can, of course, be converted into cash at any time, and that to its full amount, not merely to the extent of a partial advance as often occurs in the case of the sale of drafts on a business correspondent abroad. The bank is under obligation on its acceptance, and failure to honour an acceptance may be regarded as excluded in the case of a bank of repute. As the bank has no right of action as drawee against the exporter as drawer of the bill, the latter seems to be relieved of risk. The bank has relieved him through the acceptance of the bill. Although no advance is made in this method of financing, the bank's risk is much greater than in the case of purchase of remittances, and it is, in consequence, a matter of course, that the security which is demanded shall be at least no less complete. The question to be considered is, how this security is afforded.

It has already been remarked that financing of sales for export from Europe is only very seldom effected by means of acceptance of drafts by the banks. The reason is found, on the one side, in the great risk to the banks which this mode of financing involves. On the other side, when an exporter draws on a London bank, there are lacking the formal instructions to collect the amount of the invoice from the buyer, and the bank which grants its credit can only be secured by the shipping documents, or the goods themselves, in accordance with regular banking procedure, if the bank acts as agent, not of the seller, but of the buyer, that is, if it grant credit to the

latter, not to the former. In export business from Europe, however, the exporter must ordinarily finance the business, and make claims on the credit of the European bank.

It is a matter of course that the bank makes the delivery to it of the shipping documents a condition of acceptance. These documents are to be handed to the buyer either against payment or on credit. If the bank acts as agent of the seller, it will not be provided, in the former case, with the formal instructions for collection. In the case of sales on credit it would obtain no legal claim, based on the bill of exchange, against the buyer, as indemnification for the surrender of the shipping documents. This surrender, therefore, is only made against a Letter of Lien, the contents of which are not adapted to the legal relations of a definite sale, since it is not the buyer himself who is seeking credit from the bank.

Should the latter case be in question, and the bank grant its acceptance as agent of the buyer, there is no need of any instructions to collect, and the question is on what security the credit is granted. If the goods are to serve as security, payment will be required against the shipping documents, or their surrender may be agreed on between buyer and bank against a Letter of Trust or a Promissory Note or the storage in a public warehouse whose warrant is handed over to the bank.

In this class of acceptance business, the bank issues a letter of credit, authorizing the seller to draw on it up to a given maximum amount, and at a stipulated currency; the class of goods, against the shipment of which drafts are permitted, is also mentioned. It is further set forth that the invoices, which afford evidence of the value of the shipments, are to be handed to the bank with the shipping documents in return for its acceptance.

If the letter of credit, which is forwarded to the seller at the same time as the order for the goods, contain only the above-mentioned points, it is not entirely out of the question that the seller may find himself in the position that, after shipping the goods, the bank refuses its acceptance on presentation of the shipping documents. The bank has not guaranteed its acceptance, and, with changes in business relations with the buyer or a change in the solidity of his credit, it may withdraw from its obligations on the bills of exchange. This

is, however, not possible in the case of a Confirmed Letter of Credit. This includes a clause by virtue of which the bank undertakes the obligation of acceptance and, in propriety, is bound to hold to that agreement. A confirmation clause may run, for example, thus: "We hereby agree with you, and also with the endorsers and bona fide holders of bills drawn in conformity with the terms of this Authority, that the same shall be accepted on presentation and be paid at maturity."

Financing through bank acceptances granted for account of importers abroad, may also be applied to the case of consignment business, though it is employed even more rarely here than in regular sales for export. Yet it is the fact that financing by means of bank acceptances is, on the whole, of much more frequent occurrence relatively in consignment business than in definitive sales, and is apt to result in establishing the relations of agency between bank and seller. The reason for this is bound up with the technicalities of banking as sketched in the preceding. There is lacking, as pointed out, that instruction to the bank to collect a stated sum from the consignee of the goods at a stated interval after sight, or at sight, which a bill of exchange affords. This is rather an advantage than a defect in consignment business, since neither the amount nor the date of maturity of the commission merchant's obligation are known when the goods are despatched. The commission agent readily assents to the requirement of a Letter of Lien against delivery of the shipping documents. In this case the hypothecation has its greatest importance. The consignor, for whom the bank finances his consignment business by help of its acceptance, must not only forward the shipping documents to the bank, but must also pledge to it the goods themselves, up till the time when it receives a complete cover in cash, in his Letter of Hypothecation. The consignee obtains the shipping documents against his Letter of Lien, in which he binds himself to remit the proceeds of the goods directly in first-class bank bills by the earliest mail after their receipt, or to forward them by telegraphic transfer. There may also be specified a time-limit within which the remittances must be made. Should these remittances not come to hand by the date of maturity of the acceptance, the consignor has, in the terms of his letter of hypothecation, bound himself to cover in cash to the bank some days in advance. He commonly

does this by drawing afresh, so that the bank remains in the position of financing the affair. For the original acceptance, and for every renewal through fresh drafts, the bank takes a commission from its customers, which may, for example, be ½ per cent. for three months drafts. To increase the security of the bank, the consignee may be required to give, in his Letter of Lien, a guarantee for complete indemnification of the bank. That he should do this is naturally one of the items in the agreement between himself and the consignor.

The operations of the English banks in connection with import business into Europe from distant countries remain for consideration.. In the exchange business with exporting centres beyond the seas, importance attaches not only to the supply of bills for sale, or as basis of advances, but also to the demand for bills for remittance. For both of them it is not so much the market quotations on 'change, as the quotations forthcoming from the banks, which are the determining feature. From all that has preceded it appears that it is mainly a question of the purchase and sale of drafts on London in pounds sterling. So far as there is exchange business on continental centres to consider, it is in the hands of the few banks which are not English.

In accord with the needs of the case, these quotations abroad commonly state both buying and selling rates, for the rates at which the banks buy must naturally be maintained at a lower, those at which they sell at a higher, level. For example, there are quoted at one and the same time, the following by Australian banks:—

	Buying Rates	Selling Rates
Demand.....	2s. 6d. % discount	22s. 6d. % premium
30 days' sight	5s, 0d. % "	20s. 0d. % "
60 " "	7s. 6d. % "	15s. 0d. % "
90 " " 15s. 0d. % "		12s. 6d. % "

If a merchant desires to remit, he must pay 12s. 6d. beyond each 100 pounds sterling for 90 days' sight bills; if he would sell, he must submit to the buying discount.

The nature of the financing operations required of the banks in the case of importation into Europe is determined by the fact that it is customary for the European importer to take charge of the financing and thus the arrangement which he has to make with a bank calls for first attention. It has

already been pointed out that, in this direction of international trade, it is usual, in the very great majority of cases, for the exporter abroad to be furnished by the importer with an acceptance credit on a London bank. This bank accepts the drafts against delivery of the shipping documents, which it has to hand over to its customer. Should he enjoy excellent credit with the bank, this transfer will be effected without further trouble; in the contrary case it requires satisfactory security from him as a preliminary. Naturally the Letter of Lien can be made to serve this purpose, though it cannot be said to be usually employed in European commerce. For such an acceptance-credit importers have to pay $\frac{1}{2}$-$\frac{3}{8}$% commission (if the bill of lading is taken up against payment made or security provided, often $\frac{1}{4}$%) while banks which act as intermediaries pay $\frac{1}{8}$%; confirming costs $\frac{1}{8}$% additional.

The shipper abroad, who has such a draft on a London bank with the shipping documents attached, can without difficulty obtain money for it locally, although he is naturally not in a position to procure acceptance there—and in this point the difference between the case in question, and that of an acceptance-credit in connection with exportation from Europe, is a great one. It is especially easy to realize on the draft if he can produce a confirmed letter of credit from the bank on which his bill is drawn. In that case he can obtain either an advance on the bill until it is accepted, or full payment of its amount. He will effect the sale of the bill at that bank in his city with which he does his regular business, but it may be more advantageous, in case the bank drawn on have a branch in the place, to offer it there. In South and Central America such export drafts with documents attached are often sold on the open market to importers who use them as remittances.

Should the shipper need, not cash in hand, but means of payment in London, for use in paying for European goods for export, he endorses the draft, on a London banking house, which represents the shipment he has made, in favour of his English banker, and, on its arrival and acceptance in London, can at once dispose of it.

In the consignment of goods to European centres, a class of business which plays a far greater part in commerce in this direction than in export from Europe, the consignee can provide such an acceptance-credit, and in that case the relations

which arise are similar to those where sales are definitive. The most important point to note in addition is, that very frequently, indeed, for the most part, only a part of the value of the goods, *e.g.*, 80%, and not the full value, may be drawn for. Equally generally, and especially when the consignment is to London, the consignee is drawn on directly, and he secures for the shipper the assistance of a foreign bank. This he does by arranging with the bank that it shall offer to buy, or to make advances on, drafts on the consignee, accompanied by the shipping documents, that is, it opens a negotiation account. Special written hypothecation of the goods for the period following the delivery of the shipping documents is usually not required in this case, since the bank takes the acceptance of the European consignee as sufficient compensation for the documents. In order to procure from a bank abroad either an advance on, or full payment of, documentary bills on important European importing firms, the drawer quite frequently does not even need to have credit of his own, but can frequently obtain the money from his own or any other bank in his city without difficulty, or he can sell the bill on the open market. For example, in financing a consignment of tobacco from Brazil to one of the great Liverpool importing houses, it is quite sufficient, if the permission of the consignee has been obtained, for the shipper to draw upon him. If the drawer is known as a respectable man of business in his own town, he will be able to procure an advance on this draft without hesitation. If, however, the consignee is financially the weaker party, he may need, in the same fashion as is customary in exportation from Europe, to be provided by the consignor with an exchange-credit, at a bank in his neighbourhood, for the bills drawn upon him. Here again is an occasion for a written pledge of the goods, by means of a Letter of Hypothecation and a Letter of Lien.

In conclusion, the exclusive and independent financing of these transactions in commodities through the English banks is very important in consignment business from abroad to England, and especially to London. The banks afford the shippers abroad an acceptance-credit and thereby receive the goods in the manner of a sale on commission, which sale they cause to be effected through brokers. It is just in the case of the most important commodities, which are sent forward in very large

consignments, as, for example, wool, that this kind of financing is frequently adopted.

Finally, reference must be made to the fact that it is not only in commercial relations between Europe and other lands that the English banks exercise their function of intermediary in payments, and thereby make their financial power serviceable, but that their mediation is called into play also in commerce between different regions in other parts of the world. In this connection it is not only the independent banking operations of their branches beyond the seas which are in question, for this would be a matter of course, but also a mediation of the head office in London. In particular, buyers in regions oversea often provide their sellers in other such regions, for the purpose of balancing accounts, with acceptance-credits in London, as, for example, when an Australian importer arranges a 90-days'-sight credit with a London bank for an exporter in Hong Kong. That seems a reasonable arrangement, because the Australian stands in business relations with the London bank, possesses credit with the bank, or occasionally has an account there with a balance in his favour, while the Hong Kong exporter can realize no bills of exchange on better terms or more readily than a draft on a London bank, on account of the activity of financial transactions between London and Hong Kong. We thus see that certain advantages are developed, even in the business relations between different distant parts of the world, out of the concentration of the business of international payments in one great European money market.

Yet the day will come, when London will be deprived of this commercial prerogative, since the gains, which England derives from that business, are too great for other commercial nations to submit to be excluded from a share in them.

PRICE CHANGES AND THE COST OF LIVING IN THE UNITED STATES.

A GOOD deal of attention has recently been given to the results of an official investigation into the movements of retail prices and the cost of living in the United States. Preliminary summaries of the more striking results have been issued, but the appearance of the report itself * a week before Christmas placed the detailed tables at the disposal of the curious inquirer. Some earlier reports, which took up the same topic, included comparisons with the state of affairs in other countries, but none such are included on this occasion. Any attempts at comparisons of this sort must be made by the use of information from other sources.

A point of the greatest importance, in connection with the inquiry, was the relative extent of price movements in retail and in wholesale trade. Not much information of a satisfactory character is available on this point. There are numerous compilations of average price-changes based on prices in the wholesale markets, among which perhaps Dun's Index Number may be mentioned as likely to have attracted the attention of business men in this country more than any other. These barometers of average price-changes are based on wholesale prices for sound reasons. In the wholesale markets a definite quotation for goods of a known standard quality can be secured. Retail prices vary from one establishment to another, and the descriptions of goods sold are not so precise, in general, as to make quotations from one source comparable with those from another. Variations in the quotations may correspond to differences in the goods sold, not to different prices for identical goods. Then, again, what interests the wife of a wage-earner is the price of goods at the stores which are near at hand, and these may differ a good deal from those of large stores in leading cities. There is a wide difference between selling household necessaries in considerable quantities to a well-to-do family and selling them in small amounts to the poor families of a city slum. In the latter case, a price may

* 18th Annual Report of the Commissioner of Labor, 1903.

be paid for a very inferior quality of goods which is higher than that paid by the rich for the finest qualities, and yet such prices cannot be called extortionate, nor are the rich to be deemed specially favoured. But, for present purposes, the point is not why prices differ so widely in retail trade, but what kind of quotation should be taken as a basis for the construction of a barometer of retail prices corresponding to the well-known index numbers of wholesale prices. The report referred to, and the exhibit of the United States Bureau of Labor at the St. Louis Exhibition, utilized price-quotations obtained from some 814 retail merchants, which suffice to enable a retail price index for food commodities to be constructed. A recent report to the British House of Commons * similarly sets out numerous tables of prices secured from a number of merchants, but, though an index number for wholesale price movements is calculated, none for retail prices is shown. The price-lists printed go further than the United States report, in that they contain retail prices from year to year of numerous commodities other than food, but the data are not combined. Probably it was considered that the basis was too narrow to work on at present. In both the United States and the British reports use is made of information as to expenditure secured from a large number of households. The United States report is, in fact, mainly a result of the study of these household budgets. The British report gives the prices paid in a considerable number of households for the principal commodities of general use, mainly food, but does not contain information as to how much each family spent on the different articles. One feature appears from some comparisons of the prices in each of the reports as given by retailers and as given by purchasers. The latter are generally slightly lower than the former. This is in line with the remarks on wholesale and retail quotations already made. The retailers quote practically a uniform quality in the returns they make. The purchasers do not, in all probability, take just that quality on the average. Comparing poor families and well-to-do families, or good and bad times, differences from the side of the purchaser are likely to be made in the quality of goods purchased as well as in their quantity. Hence a measure of the change in retail prices, based on household expenditures (if we can overcome the diffi-

* Wholesale and Retail Prices, No. 321, of 1903.

culty of conceiving a definite standard of retail prices) would be likely to reflect partly a change in the quantities of goods purchaseable at a given outlay, partly a change in the quality of the goods purchased. Changes in the proportion of the income which is spent on food, clothes, etc., will also result from fluctuations in prices, and hence the index of price movements may fail to reflect correctly the purchasing power of wages, because it overlooks these readjustments between different lines of expenditure. The United States compilation, for example, is based on the quantities of the different articles of food consumed by 2,567 families in the year 1901. These were only about one in ten of the families investigated, but only these afforded adequate details of expenditure. The cost of the food consumed in 1901, at the prices returned in the retail merchants' schedules for each year from 1890 to 1903, affords a means of tracing the movement in the cost of food from year to year. A comparison of such a measure of movement in retail food-prices with an average of price-changes compiled from wholesale records, brings out a fact which had been known before, and, moreover, affords a measure of an effect not satisfactorily measured previously. The variations in retail prices are shown to be much smaller than those in wholesale prices. Thus, the wholesale prices, taking yearly averages, fell in 1896 to a little over 16 per cent. below the average level of 1890-99. The retail price-measure is but a trifle over 4 per cent. in 1896 below the 1890-99 average. In 1891, the highest point of the early nineties is shown, and wholesale prices reached nearly 16 per cent. above the mean level of the decade. Retail prices in 1891 were hardly 3½ per cent. above their mean for the decade. In 1902, as contrasted with the preceding, wholesale and retail prices alike stood at about 11 per cent. above the 1890-99 average level, and in 1903 wholesale prices showed a moderate fall, in which retail prices did not share. The extreme points of the ebb and flow have been noted, and it only remains to add that the general trend upwards or downwards corresponds in the two sets of prices. The retail buyer does not get, apparently, the full benefit of a reduction in wholesale prices, but he may escape part of the burden of a rise in wholesale prices. It must not be forgotten that the retail price for a commodity is often much above the wholesale price for the same commodity. Hence the smaller percentage change of the retail prices may work out at much more nearly the equivalent in actual money of the change in

wholesale prices than appears at the first glance. The change between 1896 and 1902 mentioned above, for example, represents an addition of nearly one-third to wholesale prices, not quite one-sixth to retail prices. The two would represent equal sums of money if retail prices were about double the wholesale prices of the same goods, and differ from equality as the proportion of retail to wholesale prices differs from that of two to one. What is true of the average of food-prices is also true of the individual commodities, but it would be tedious to dwell on them one by one.

How far other leading lines of expenditure than food, e.g., clothing, fire and lighting, etc., exhibit like contrasts in the movements of wholesale and retail prices would be an interesting point to examine, but the material is not available. One piece of information bearing on the subject, though somewhat distantly, is afforded in a comparison of wholesale price movements of raw materials and manufactured goods. The extreme range of deviation in the years 1890 to 1903 from the average of 1890-99 is about twice as great for raw materials as for manufactured goods. The householder is most concerned with manufactured goods. The ordinary index numbers of prices are largely based on prices of raw materials. Hence, apart from the difference in wholesale and retail prices of the same goods, the measure of the fluctuations in wholesale prices will not correspond closely to the proportions in which the purchasing power of the wages or salary of the householder varies.

The material for the study of the cost of living on which the United States report quoted is based was obtained from 25,440 families, containing 124,108 persons, and scattered over 33 States. Special studies are made of the returns from families representing average conditions, as expressed in the fact that they contained a husband at work, a wife, no servant, lodger, boarder or other dependent, and not more than five children, all under 14. Of such families, designated "normal" in the report, 11,156 made returns of expenditure in sufficient detail for the purpose required. Their average yearly income was $650.98, and their average expenditure $617.80. As they averaged 3.96 persons to a family, the annual excess of income over expenditure represents $8.38 per head, or at the rate of about $660,000,000 for the entire population of the United States. These figures are sufficient evidence that the class dealt with is, on the one hand, not a wealthy

class, and, on the other, not a spendthrift class. They show how large an amount of saving can be done by people of small incomes. About one-half of the entire 25,440 families under inquiry showed a surplus, one-third showed a balance and one-sixth a deficit. The average income, at a figure just half a dollar short of $750, was $50 in excess of the average expenditure. The larger group averaged 4.88 individuals per family, the larger average income being more than offset by the greater number to be provided for, when comparison is made with the "normal" family.

The distribution of expenditures over the principal lines of outlay—rent, food, clothing, fuel and light and other expenses—is studied in considerable detail, and brings out many points of interest. The most important of these special lines of expenditure is that concerned with food. Of every 100 dollars spent in the normal families, $43.13 is recorded as spent on food. It is worth noting that the families whose heads were natives of the United States spent a little less, not only in proportion to their total outlay, but also in dollars and cents, on food than families whose head was foreign-born. But the average of the former families reached only 3.86 individuals, while the latter averaged 4.14 persons to a family. This consideration checks any hasty conclusion suggested by the apparently more abundant food of the families of immigrants. In some cases, at least, the closer examination of the tables confirms the first impression produced by the summarized figures. Taking the families of Canadians which were included among the "normal" families, we find a higher expenditure for food in families of two, three, four and seven persons, but the United States family of five or six persons spent more for food than the Canadian family of the same size. When we look at the total income of the families of various sizes, we find that, while for the cases of no children, or of one, two or five children, the Canadian family income exceeds the United States family income, for cases of three and four children the opposite is the case. The Canadian family, on the whole, devotes a larger share of its means to its food supply than does the family of United States descent. Similarly, taking the entire group of families whose fathers are foreign-born, though for the cases of no children, and of one, two and three children, more is spent on food, the family income is less than in the corresponding families of American fathers. For the cases of four and five children, the actual cost of food for the foreign

families was a little below that for native families, but only some two or three per cent. below, while the family incomes were about ten per cent. less than in native families of the same size. The examination of the details, therefore, does not contradict the impression conveyed by the summary. Either the immigrant pays higher prices for his food, or he consumes more than the native. Earning 25 dollars less per family, and spending 14 dollars less, the foreigner's food expenditure per family is 9½ dollars more than the American's. If we turn to the tables in which the details are classified according to the size of the income, we find there, too, that, for all sizes of income, a higher percentage is spent on food by foreign than by native families. The one exception, that of incomes less than $200, need not be assigned any special importance, as there were but four such families of foreign fathers on which to base an average.

The United States report sets forth the quantities of each of twenty principal articles of food consumed per family in 1901, as obtained from the smaller group of 2,567 families. These families contained more individuals than the average, either of "normal" families, or of all families investigated. They averaged 5.31 persons per family. Again the foreign families are the largest, with an average of 5.76 members for each of the 989 families. The 1,578 native families averaged 5.03 individuals to a family. The expenditure on food was, for native families, $312.68, for foreign families, $349.58. As a child does not usually consume as much as an adult, the difference in outlay is not and would not be expected to be proportionately as great as the difference in the size of family concerned.

It would be interesting if one could compare the food (and its cost) consumed by the average wage-earner in the United States and abroad. To gather together the material available for such a purpose, and to point out the chief comparisons of interest, would take more space than is available in the present number of the JOURNAL. Failing such a comparison, I have calculated the cost in England of the family food-supply of the Americans represented in the report quoted. For English prices I have used the prices supplied by 60 of the families, data from which are given in the English report above referred to. Thirty of these families lived in London; thirty in the North of England. The former paid less for their

food, but more in rent than the latter. The data supplied do not show whether they got more space to correspond with the higher rent. On the basis of the average consumption of the American family, a family in England would pay about 17 per cent. more for food than the same would cost in the United States. On the basis of the consumption of families in the State of New York, the difference is less. In fact, if we take London prices, the food-supply of the families in New York State would not be 8 per cent. cheaper than if purchased in London. The advantage of living in a country which exports great quantities of food, over living in the country which imports these supplies, is less than might have been expected. The fluctuation of retail prices in the United States between 1896 and 1902 was very considerably greater than the difference in price-level between New York and London in 1901, as shown by these calculations of the cost of a given ration of food. The point most worth attention in connection with this comparison of English and American food prices is that a great contrast exists between the kind of food consumed in the United States and in England by families in similar relative conditions. The large consumption of meat, in comparison with other articles of food, is particularly striking in the United States record. Meat and fish count for over one-third of the outlay on food, and here the foreign families rather outdo the natives. In the computation of the English cost of the American family's food, the greater relative cost of meat in England is reflected in the fact that the meat and fish items aggregate some 38 per cent. of the whole food outlay as thus computed. Actual outlay on food in England by English families, even of the well-to-do artisan class, would hardly show so large a proportion spent on meat. Bread and flour represented little over one-quarter of the American family's expenditure on meat, or barely 9 per cent. of the entire cost of food. In England this item would be relatively much larger. If the Englishman spends less on food than the American, it is largely because he buys different articles. A record of English family expenditures as extensive as that which the Bureau of Labor at Washington has compiled for United States families would provide matter both interesting and instructive when placed beside the American record. In view of recent authoritative utterances on the subject of meat-eating, it must not be concluded that the greater meat consumption and smaller use of

bread by the American, as compared with the Englishman, is all net gain in productive energy developed.

Some points of considerable interest are raised in the study of the variation of expenditure with the size of family and with the amount of the family income. Take, for example, the following, prepared from one of the sets of tables:—

Variation of Cost of Food with Income and Number of Family.

	INCOME $200 to $500	INCOME $500 to $800	INCOME $800 to $1200
Size of Family	Percentage of Total Expenditure Devoted to Food		
No Child	44.82	40.51	37.16
One Child	45.31	42.26	38.93
Two Children	47.79	43.77	39.91
Three Children	49 08	45.35	41.38
Four Children	50.86	47.12	42.37
Five Children	51.06	48.77	43.06
Average for all Families	47.11	43.68	40.12
Number of Families	2336	6694	1926

From these figures it appears that the cost of food bears a lower proportion to the income the larger the income. This is shown in great detail in the tables from which the above is derived. It further appears that, in the middle class of incomes, the increase of the percentage spent on food as the number of the family grows is greater than in either the larger or smaller incomes. This suggests that inadequate provision of food for a numerous family is afforded by the smaller incomes, but that the food-supply has become ample in the middle class, so that a comparatively smaller increase suffices to provide for increased numbers when the income is above the average. In the corresponding data relating to clothing, though the percentage of all expenditures which this need absorbs is greater for large incomes than for small, there is a relatively small increase in the percentage as the size of the family increases. This increase is greatest for the smallest of the three groups of income shown in our table. Rent, like food, absorbs a smaller fraction of the total income as the family increases in

size. There is also a slightly smaller proportion devoted to rent from the larger than from the smaller incomes. Fuel and light, like rent, are provided with a little more economy for large families than for small. A quite markedly smaller fraction of large incomes is devoted to this item of expenditure than of small incomes.

The expense of living, per individual, is naturally less in large families than in small, since an adult is more expensive to feed and clothe than a child, as well as because some outlays can be made to serve for a more numerous family almost as well as for one less numerous. To establish a satisfactory basis of comparison, there was needed a scale by which to compare women and children with adult men. The scale adopted by the United States Bureau of Labor was the following:—A woman, or a child between 11 and 14 years of age, inclusive, was counted as consuming 90 per cent. of the food consumed by a man. Between seven and ten years of age, inclusive, the child's food consumption was counted at 75 per cent.; between four and six, inclusive, at 40 per cent.; and at three years of age and under at 15 per cent. of a man's food consumption. These figures result in the following curious table:—

Relative cost per 100 units of consumption (that of one adult male) in families of different sizes.

Size of Family (Each family includes husband and wife)	Native Families	Foreign Families	All Families
No Child.	100.00	100.00	100.00
One Child	91.73	85.85	90.24
Two Children	79.47	80.65	80.01
Three Children	70.97	70.50	71.11
Four Children	65.19	57.56	62.41
Five Children	58.20	48.61	54.67

The degree of economy effected in the purchase of food for the larger families seems extreme. A scale of reduction in which a child's food was counted for more, in comparison with a man's, seems suggested. The compiler of the report states, in relation to the scale used, that "Previous studies of this character have shown these figures to be approximately correct." The figures worked out on his basis certainly sug-

gest that the foreign families display, on the whole, superior management to that of the native families.

It would be easy to continue to make interesting extracts or compilations from the report, which contains a veritable mine of information. It will be best to confine ourselves, however, to the main topic, and only add here some references to the movement of prices from year to year. The previous allusions to the ebb and flow of retail prices of food may be given a further expression in the cost of the average family's food, taken at the quantities of the various articles shown to be consumed in 1901, and priced in accordance with the information of the retail merchants. The extreme variations between 1890 and 1903 show a cost of $296.76 for this ration in 1896, and a cost of $344.61 in 1902. The movement is somewhat different in different sections of the country, but we need not delay over these differences.

The movement of retail prices is not traced for other articles than food. In view of the practical certainty that retail prices varied less than wholesale prices, it is probable that the cost of clothing, fuel and light, furniture and utensils, and tobacco was not much, if at all, greater in proportion in 1902 or 1903 as compared with 1896, the year of lowest prices generally, than was the case with food. When these articles are allowed for, there remains about one-third of the family outlay, covering rent and taxes, amusements, insurance, sickness and charity and the like. Much of this expenditure remains fairly stable, unaffected by movements in general prices. It may be taken as a fair estimate that the cost of living in 1902 or 1903 was in excess of that in 1896 by about the same percentage as shown for the cost of food, say, 15 or 16 per cent. This represents not more than $120 on the average income of about $750 previously named as recorded for all the families contributing to the record. A movement of $2.50 per week in average wages would, therefore, fully offset the increase in the cost of living since 1896, if we may rely on the data supplied by the Bureau of Labor. An inquiry reported in the July number of the Bulletin of the Bureau of Labor resulted in the conclusion that, in 1903, the average wages per hour had reached a point 16.6 per cent. above those of 1896, while the hours worked per week averaged 3.2 per cent. less than in that year. It would appear, therefore, that, except in so far as they have more leisure in place of more earnings, the wage-earners have secured compensation for the increase in the cost

of living. As the data relating to wages were secured from 3,429 establishments, covering 519 different occupations, and including all the leading mechanical and manufacturing industries, they should be fairly representative of general conditions.

The references to some tentative comparisons of American with English conditions makes one further comparison in place here. The movement of wholesale prices in these two countries, at any rate, can be compared. If we confine the comparison to the period since 1890, the movement of prices in England has been less violent than in the United States. The fall to the lowest point was not very much less in sharpness in England than on this side, but the inflation of prices subsequently has gone much further here than there. The deviation has been especially marked since 1900, the sustained high level of United States prices not being matched on the other side. The comparison of the movements of the wholesale prices of food with the general movement of wholesale prices, shows but little noteworthy divergence between the two movements on either side, and particularly in England. The retail price movements in the two countries have probably not differed by as much as the wholesale price movements.* If that be so, the cost of living in England has advanced less on the figures of the middle nineties, and less on those of the early nineties, than has been the case in the United States.

A. W. FLUX.

* Since the above was set up, the announcement of a new British blue-book, containing data relating to several of the points noted in the above article, has been received.

FRAUDULENT WAREHOUSE RECEIPTS AND BANKERS' RIGHTS THEREUNDER.

BY CHARLES M. HOLT, K.C.

A BANKER'S right to regard as a good and valid security, a warehouse receipt purporting to be regularly issued by a joint stock Company, but in reality negligently and fraudulently issued by its officers, has been fully discussed in a very recent and interesting case decided by the Court of Review at Montreal.[1]

It was contended in that case that certain warehouse receipts pledged to the bank in the ordinary course of business, but subsequently discovered to be fictitious and fraudulent, were not binding on the Company, whose treasurer had *fraudulently*, and whose vice-president had *negligently*, signed and issued them. The Court of Review unanimously rejected this plea, and held the receipts binding on the Company. The Court held that even assuming that the Company was not bound by the *fraudulent* act of the treasurer in signing false warehouse receipts, because the falsity of the receipt made the signing of it an act not done "in the execution and within the powers of" that officer's mandate, the Company was at all events under that article bound by the act of its vice-president in *negligently* signing blank receipts, in so far as that act contributed to the deception of persons who subsequently made advances upon the strength of such receipts. And that act very materially contributed to that result, since without it the receipts would not, even on their face, have been the receipts of the Company. The vice-president's signature was as essential, under the Company's by-laws, to all negotiable instruments as was that of the treasurer. The discussion turned on the application of the following articles of the Quebec civil code,

[1] Jos. Ward vs. The Montreal Cold Storage Co. & al. Montreal, 17 December, 1904. Tait, Doherty and Pagnuelo, J.J.

which it may be remarked contain the English common law rule as well. 1727—"The mandator is bound in favour of 3rd persons for all the acts of his mandatory done in execution and within the powers of the mandate, except in the case provided for in art. 1738." 1730—"The mandator is liable to 3rd parties, who, in good faith, contract with a person, not his mandatory, under the belief that he is so, when the mandator has given reasonable cause for such belief." 1731—"He is liable for damages caused by the fault of the mandatory according to the rules declared in article 1054." 1054 provides that every person is responsible for the fault of those under his control, and for servants and workmen in the performance of the work for which they are employed.

The Court reasoned that assuming, that if not bound by the treasurer's fraudulent act in signing the receipts the Company was not bound at all under article 1727; it was bound by the receipts in question under article 1730, and responsible under article 1731 and 1054 for the damages caused by the fault (quasi-delit) of its vice-president, in negligently signing the receipts in blank, and that of the treasurer (delit) in fraudulently affixing his signature, though knowing the receipts as filled up to be false.

With regard to article 1730, the Company strenuously contended that this article was inapplicable because the treasurer was its mandatory throughout for the purpose of signing the receipts in question. They contended the article had no application to a case where a mandatory exceeds his powers, but applied only where a person is not a mandatory at all. But the Court took the view that a mandatory who does an act in excess of his powers, is not a mandatory at all *quoad* that act. His act is one done by a person, who as regards it, is not the mandatory of the person in whose name he acts. It is precisely for these reasons that he does not bind that person under article 1727. That being so, if the mandator who has given his mandatory limited powers, holds him out as having larger powers, he, in effect, holds out a person who, as regards any act in excess of the powers conferred by the mandate, is not his mandatory, as being his mandatory to do such act, provided it be within the larger powers which he holds him out as having. To hold that it did not would be to enable a mandator who had conferred limited powers on his mandatory, and held him out

as having unlimited powers, to escape responsibility for any exercise of power beyond the limited power conferred, though within the apparently unlimited power.

Such a mandator, in such a case, would escape liability under article 1727, because the person acting as mandatory and exceeding his powers, was not his mandatory, and equally escape liability for the same act under Article 1730, because the person so acting was his mandatory.

It may safely be said that the larger number of cases in which article 1730 finds its application are cases where a mandatory having limited is held out as having more extended powers.

If, therefore, these officers were held out by the Company as having the power to sign the receipts in question, it seemed the Company must be held bound by them even though it is assumed that either one or both of them, by reason of circumstances unknown to the persons taking such receipts in good faith, exceeded as between him or them and the Company his or their powers.

Section 16 of the by-laws of the Company in question, was the usual by-law providing that all negotiable instruments shall be made accepted, drawn or endorsed by the president or vice-president, and treasurer or secretary of the Company. A was the vice-president, and B the secretary-treasurer of the Company. As such Company by its by-laws held them out to have power to sign in its name and on its behalf all negotiable instruments it, in effect, said to all the world: "Negotiable instruments signed in my name by these two officers are signed by me, the Company, they are my negotiable instruments, you can rely on and accept them as such." Having given to the world this assurance, it did not lie in the mouth of the Company, to question, as against third persons who in good faith, acting upon that assurance have accepted and made advances upon negotiable instruments, signed in its name by these officers the binding force of such instruments because in signing them one of its officers betrayed his trust. A by-law in this form is an express power of attorney to these officers to sign all negotiable instruments. The documents in question are negotiable instruments. One of the officers signed and issued them fraudulently for the benefit, not of the Company, but of an outsider. This, as between him and the Company,

was an unauthorized act, but as between the Company and third person acting in good faith, it was on the face of the instrument signed and of the by-law, the precise act which in express terms the Company had authorized him to do.

The case now under discussion seems to be, in this aspect of it, similar to the case of the Quebec Bank vs. the Bryant & Davis Company (Ltd.), where the Privy Council held a joint stock company liable on a note endorsed in its name, but to raise money for his own purpose by an agent, who, by power of attorney, was expressly authorized to endorse bills of exchange. The act of the agent there was fraudulent and as between him and his principal unauthorized. Their lordships, however, held it binding on the Company, declaring the law to be well stated by the Court of Appeals of New York in the case of the president of Wakefield Bank & Carman—that statement being as follows: "Whenever the very act of the agent is authorized by the terms of the power, that is, by comparing the act done by the agent with the terms of the power the act is in itself warranted by the terms used, such act is binding on the constituent as to all persons dealing in good faith with the agent; such persons are not bound to enquire into facts aliunde. The apparent authority is the real authority.

This last phrase is merely a concise statement of the rule of our article 1730.

Under this article, therefore, we must conclude that the company was bound by the receipts in dispute. And these receipts were not mere representations that goods had been deposited with the Company. They were contracts whereby it bound itself to deliver to the holder of them the number of packages of goods mentioned in them.

By these contracts the Company was bound, failing delivery of those packages to pay their value. But as by the receipts the Company specially declared "quality," contents and value of the goods to be unknown, it would have been incumbent upon the bank, had there been goods actually warehoused, and not delivered, to prove the quality and contents and value of the packages. As there were no goods, this proof it was, of course, impossible to make. The obligation of the Company would have been complied with had there been goods warehoused, by producing the packages actually so warehoused, even had they

contained little or no butter or cheese, or had what they contained proved of little or no value. And the measure of the bank's damage for non-delivery of the packages, had such existed, would have been but the value of the contents of the package warehoused, of which the proof would have been on it. There having been no package, it seemed questionable to the Court whether the bank could claim any sum as being the value of a quantity which might have been in the packages had there been any—the Company having, by their warehouse receipts, made no representations, assumed no obligation as to quantity or value.

It might, perhaps, therefore, be contended that upon the warehouse receipts treated as binding contracts calling for delivery by the Company of the number of packages mentioned in them, it would not be possible—there never having been any packages delivered, and the Company having assumed no responsibility as to contents, value or quality of the supposed package, to determine any sum as being the value of such supposed packages, and which as such it should pay, failing their delivery. The Court felt it should give the matter further consideration before absolutely accepting defendant's view, that under these circumstances, it had a right to have from the Company the market price of the quantity of butter or cheese usually contained in "packages" of such merchandise, but it was not prepared to decide that the bank, under the circumstances, had not that right. It did not seem necessary to determine that question in the case we are now reviewing.

In signing the receipts in question the vice-president committed a quasi delit, and the treasurer a delit. These faults of theirs were committed "dans l'accomplissement des fonctions auxquelles ils étaient employées," using the words of the French version of Article 1054 (made applicable to the case of principal and agent by Article 1731), in preference to those of the English version, because they seem to convey more exactly the idea of the legislator. The words of the latter version, while they do not, perhaps, materially differ in meaning from those of the former, perhaps lend themselves more exactly to the very restricted interpretation to the terms of the article which was contended for. In that restricted interpretation it was contended that the words, "the performance of the work for which they are employed" limits the responsibility of the

employer for the fault of the employee or of the principal for that of the agent, to the fault committed while the employer or agent is not only performing the precise kind of work which he is employed to do, but is actually doing it honestly for the benefit and in the interest of the master or principal. That it was argued is the only work he is employed to perform. Understood in this sense the words do not seem to adequately translate the French words "dans l'accomplissement des fonctions auxquelles il sont employées." And the latter are the words used by Pothier in laying down the rule the codifiers of the Quebec Civil Code took from him. An agent doing dishonestly for his own purposes, but in his principal's name and ostensibly on his behalf, and in the ordinary course of his business, the precise kind of work the latter employed him to do, whether he be or be not doing the work he was employed to do is performing the functions for which he was employed. Included in the functions or duties for which the vice-president and treasurer of the Company were employed was certainly the signing and issuing in the Company's name and on its behalf of warehouse receipts. In performing this function one of them negligently, and the other fraudulently, signed and issued false warehouse receipts. The one was guilty of a quasi-delit, the other of a delit, but both became so guilty in the performance of the functions for which they were employed. Each was guilty of fault, though their faults differed in kind. For the damage therefrom resulting their employer is responsible, without regard to whether these faults be offences or quasi-offences. The law makes no distinction. The employer trusted them both to act in the performance of their functions carefully and honestly. One of them acted negligently; the other dishonestly. The result was that the bank defendant parted with its money, believing it had security where it had none. By so parting with its money it suffered damage caused by the fault of the Company's employees. The measure of that damage is the amount with which the bank so parted and which it had not been paid. For that damage the Company was responsible to it, and the liability being one resulting from an offence, the fact that others may also be liable to the bank, does not diminish the liability of the Company which is jointly and severally liable with the others responsible for such offence or quasi-offence and which cannot claim to be relieved by reason of any per-

sons—if any there be—having been liable in good faith upon the paper discounted on the security of said receipts.

An argument much insisted on in support of the contention that the Company was not bound at all by the receipts in question, was that they were not warehouse receipts at all within the meaning of the Bank Act, and this because the definition given in the act describes such instruments as being receipts given for goods delivered and "actually in the place." In denying to these receipts the quality of warehouse receipts answering this description, the Company was, no doubt, right. They were not warehouse receipts the transfer whereof would or could give the transferee any pledge upon the goods mentioned in them as provided by the Bank Act, since there were represented by them no goods in existence in the warehouse or elsewhere. But they were none the less negotiable instruments, whereby the Company, through its officers, warranted to the transferee that they were goods actually in the warehouse, upon which said transferee would, by taking the receipts, obtain a pledge, and which the Company bound itself to deliver to him. The representation being false, the transferee had no pledge, but that did not relieve the Company from the obligations it had undertaken, nor from responsibility for the representation it had made. If the non-existence of the goods rendered the obligation to deliver them impossible of fulfilmen, it left the Company responsible for such non-fulfilment and for its misrepresentations, and liable for the damages suffered by the transferee by reason thereof.

Much stress was laid upon the case of Grant vs. Norway decided by the Common Pleas in England in 1851, and several other English cases which have since followed the doctrine therein laid down, and upon a judgment of our own Supreme Court, in Erb vs. The Great Western Railway Company, an Ontario case wherein their Lordships of that court, by a majority of three to two, adopted and applied to a bill of lading signed by a railway station agent, the rule laid down in Grant vs. Norway with regard to a similar instrument signed by the master of a vessel. The rule was that the master in the one case and the station agent in the other had no implied power by virtue of his office to bind the ship-owner or railway company by signing bills of lading for goods which had not been shipped, and that third person advancing in good faith upon the

security of such bills of lading, had no recourse against such ship-owner or railway company. These cases were strongly relied on in the case now under discussion as determining in the Company's favour the question that arises in that case.

It is not necessary to consider whether these cases were well decided under the laws applicable to them. Nor is it necessary to determine whether they should have been decided in the sense in which they were, had the law of this province been applicable to them. The question in those cases materially differed from that arising in the case now discussed. They dealt solely with the extent of the powers to bind their principals of the master of a vessel, of a subordinate employee, like the agent at a railway company's station. Some one, at least, of the English cases dealt with the question of a warehouse-keeper, that is, a subordinate employee in charge of his employer's warehouse. They hold that such employees bind their employers by signing bills of lading or warehouse receipts only where they do so upon actual receipt of the goods signed for. This seems tantamount to holding that the signatures of these employees do not bind their employer at all—that it is the actual receipt of the goods that alone binds the latter. However, that may be, and even if, as regards the implied powers of such agents or servants, the same conclusion as reached in those cases should be reached under our law, that question is not pertinent to the one we now consider.

What the Court determined, in a sense adverse to the Company, employer or principal, is whether it was bound by the acts not of any subordinate, acting in the exercise of limited or implied powers, but whether it was bound by the acts of its chief executive officers, done in comformity, or at all events apparent comformity, with executive powers of the widest kind, as regards signing of negotiable instruments conferred upon them by the Company's by-laws adopted in general meeting of its shareholders by the instruments in question. In this Ward case it was necessary to determine nothing more than that a corporation having power to issue negotiable instruments, is bound, in favor of third persons in good faith by the official signature to such instruments of these officers whom such corporation's by-law empowers to sign them in its name, and whose signature to such instruments, the company, by adopting such by-law, makes its own. The

Parliament of Canada has specially legislated upon the subject of responsibility for the issue of bills of lading, where the goods purporting to be represented by them have never been shipped. In doing so it has copied the Act of the British Parliament, 18 and 19, Vic. Cap. 3, passed after the judgment in Grant & Conway, making it, however, applicable to railway bills of lading, as well as those issued by masters of vessels, to which case only the English staute applied.

Both these statutes making in express terms, every bill of lading in the hands of a consignee or endorser for valuable consideration, conclusive evidence of such shipment against the master or person signing the same, notwithstanding that such goods may not have been shipped, unless he shows he was entirely without fault in signing the same might fairly be cited as excluding responsibility on the part of the owner of the vessel, or of the railway company in the cases of railway shipments, when the bill was signed by an employee of the railway company, such as station agent, as in Erb vs. The Great Western. The English statute has been so judicially interpreted, as regards the vessel owner. Our statute had not been enacted when the judgment was renderd in Erb vs. The Great Western. Had it then been in force, it would, interpreted as above mentioned, have settled the question thereby decided, and in the sense of that decision.

This act, dealing with bills of lading exclusively, has no application to warehouse receipts, and so no direct bearing upon the question we are now considering.

If it could be relied on as laying down a rule for an instrument analogous to a warehouse receipt, and an application by reason of such analogy to warehouse receipts then it would only make absolutely clear the responsibility of the Company upon the warehouse receipts in question here. For if the reasoning upon which the conclusions set forth in the foregoing notes were reached be sound, then the signatures to the warehouse receipts being that of the Company appended to them by its officers authorized to sign all documents, the Company is, as regards all third persons, the person signing the warehouse receipt. As such, if the rule of the statute should be applied to warehouse receipts, the receipts herein would, under that rule, be conclusive evidence of the warehousing of the goods against it, notwithstanding there having been no goods warehoused, and

it could only exonerate itself in respect of the misrepresentation contained in the receipts, by showing that it was caused without any default on its part, and wholly by the fault of the person warehousing or the holder, or some person under whom the holder claims. The fault of its officers being the Company's fault, it did not show, as it should have done, that the misrepresentation was caused without any default on its part. This seems to be the true doctrine. The Ward case may, however, go to a higher Court. If so, the result will be watched with interest.

BANKING IN ANCIENT GREECE.

THE prototype of the banking institution in ancient Greece was the temple, which to some extent served as a place where treasures could be conveniently and securely deposited, and which in other ways contributed in no inconsiderable degree to the development of the commerce of ancient Greece. The temples, indeed, were not only utilized for the purpose of security, though this appears to have been the first commercial use to which they were put. Subsequently, and as the method of utilizing the very sacredness of the associations with which they were invested by a people who were naturally prone to superstition became more and more customary, there arose a natural and almost necessary development of this original purpose. The sanctuary, which from its religious character had become a convenient safe-deposit, now extended its operations, and having large funds derived from votive-offerings and other similar bequests, gradually acquired something of the character of a "loan and finance corporation."

From the temple then, though, of course, in a very crude and imperfect form, we may trace the original beginnings of banking in Greece, and it is interesting to observe that it is to the religious character of these institutions that the first attempts to utilize them for commercial purposes is clearly owing. The accumulation of funds thus inaugurated would lead quite naturally to the endeavor to put to profitable employment not only the estates belonging to the sacred foundation, but also the sums confided to their care in the manner just mentioned.

There seems little doubt then that it was in this way that the germ of the "banking" idea was originally developed in the Greek State, and a curious instance is given by Thucydides of the extent to which the temples of ancient Greece were regarded as alike the natural depositaries and the outward and visible signs of national or local civic stability. Before preparing for that disastrous Sicilian expedition, which furnished so lurid and tragic an episode to the Peloponnesian war, the Athenians had naturally been anxious to estimate, so far

as possible, the resources and aid which they could rely upon in case of need to be supplied by their allies. The Egesteans, in particular, had promised them large financial assistance, and the trick which these perfidious allies played on them and the bitter disappointment of the Athenians are graphically depicted by Thucydides. "The three ships which had gone forward to Egesta now returned to the Athenians at Rhegium; they reported that of the money which had been promised 30 talents (about thirty-six thousand dollars) were forthcoming and no more. The spirits of the generals fell at once on receiving this their first discouragement. . . . The fact was that when the original envoys came from Athens to inspect the treasure, the Egesteans had practised a trick upon them. *They brought them to the temple of Aphroditè at Eryx*, and showed them the offerings deposited there, consisting of bowls, flagons, censers, and a good deal of other plate. Most of the vessels were only of silver, and therefore they made a show quite out of proportion to their real value. They also gave private entertainments to the crews of the triremes. On each of these occasions they produced, as their own, drinking-vessels of gold and silver, not only collected in Egesta itself, but borrowed from the neighboring towns, Phœnician as well as Hellenic. As they all of them exhibited much the same vessels, and made in all cases a great display, the sailors were amazed, and on their arrival at Athens told every one what heaps of wealth they had seen. When the news spread that the Egesteans had not got the money, great was the unpopularity incurred throughout the army by these men, who, having been first imposed upon themselves, had afterwards been instrumental in imposing upon others."

It is curious indeed how history repeats itself. The trick played upon the Athenians by the men of Egesta is a mere variation in form on the imposition practised by the Gibeonites on the children of Israel. But the real interest of the story lies in this, that it emphasizes the fact that the wealth of a temple was regarded as synonomous with national commercial solidity. The temple evidently at that early period took the place of a national banking institution, and the credit of the one was held to be identical with the credit of the other.

But if the germ of the banking system is clearly to be traced to the Greek temple, it is none the less a fact that in course of time a regular system of banking sprang up, whose

members were not only not connected with the priestly profession, but appear, generally speaking, to have been persons not possessed of the full citizenship of the Athenian citizen. From the tables which they used in the course of their business they were called "Tablemen" ("Trapezitai"), and it is interesting to notice that though in Greece the banking community became completely separated from its original connection with buildings primarily devoted to religious purposes, nevertheless the New Testament narrative shows an obvious connection between the two. "The money-changers" who are mentioned in the narrative of the evangelist, and who almost exactly correspond to the "Trapezitai" of ancient Greece, had placed their tables in the immediate vicinity of the Temple at Jerusalem, and actually carried on their business within its precincts.

When the original but crude and imperfect plan of entrusting securities to the local temples had gradually given place to a more enlightened system, the bankers at Athens and in other of the leading Hellenic cities gradually evolved principles, which the considerable commerce of the time made necessary, and which contained in themselves at least some of the characteristics of modern banking.

Pure banking operations such as the receiving of deposits, the opening of current accounts, and the making of loans soon became regular features of the banking system of ancient Greece; and as commercial operations assumed greater magnitude, a more regular development naturally followed along all these lines.

The intercourse by sea among the Hellenic States was extremely active, and in many instances the merchant vessels employed in the carrying trade were built of a very considerable size. Thus Demosthenes (to whom is due much of our knowledge of the state of the banking system prevalent among the Greeks) mentions in the speech against Phormio, a merchant vessel which, in addition to the cargo, slaves and crew, had a passenger-list of more than three hundred freemen. It was only natural that Athens, from her favorable maritime position, and from the fact that ever since the Persian wars her populace had been instinctively attracted to the sea, should take a prominent part in the commercial expansion of Greece, which was so largely coincident with the development of her own literary and artistic activities. But the enlargement of her commercial relations and the ever-widening circle of her

trading operations necessitated the establishment of some system by which credit could be easily effected, and payments conveniently and speedily made; and thus it was that in Athens, from the circumstances of the case, the system of banking became most fully developed, and was carried on with such an effective organization that it became the model from which the Roman system of banking was subsequently derived. Athens, indeed, to a large extent, was the London of the ancient Greek world, the port into which was poured by far the largest volume of Hellenic commerce. Thus in the words of Boeckh, "Those articles, which in other lands could scarcely be obtained singly, were in the Piracus found together. Besides grain, choice wines, iron, brass, and other staple commodities from all the countries on the Mediterranean Sea, there were imported from the coasts of the Black Sea slaves, ship timber, salted fish, honey, wax, pitch, wool, tackling and cordage for vessels, leather, goat skins, from Byzantium, Thrace and Macedonia, also timber, slaves, and salted fish; slaves moreover from Thessaly, to which country they came from the interior; and fine wool and carpets from Phrygia and Miletus. . . . In return for these importations, Athens exported to those countries articles of its own produce and manufacture. The Athenians also exchanged commodities which they had procured from other countries." It was, in fact, truly remarked at the period of her greatest commercial pre-eminence that "all the sweet productions of Sicily, Italy, Cyprus, Lydia, Pontus, Peloponnesus are collected by Athens through her maritime supremacy." And as Athens and Attica, occupied amongst the states of the ancient Greek world a position similar to that which London and England have assumed in the place of modern international commerce, it was only natural that as London has become the clearing-house of the huge financial undertakings of modern lines, so Athens in the infinitely smaller but relatively similar position which she occupied in the Hellenic world, should have been forced to develop her banking system to as high a pitch as the circumstances and limitations of ancient commerce would permit. Except, indeed, that they do not appear to have issued notes, the bankers of Greece seem to have exercised the same main functions as those which characterize modern banking. They did not, of course, possess that instrument which has proved of such inestimable service to modern commercial life, namely, the cheque; but, on the other hand, they undoubtedly received

money on deposit, which was repayable on demand, provided that the mandate was accompanied by satisfactory credentials An interesting account of the customs prevalent in this regard is given in Bekher's "Charicles." "The trapezitai, at whose hands Charicles had to receive the greatest part of his patrimony, were very different individuals. Diotimos, a man now advanced in years, bore universally a reputation for the highest integrity. Not only had he been Charinos' banker, but also his friend and confidant. When the latter, through dread of the accusation, resolved on leaving Athens, he charged his trusty and well-approved banker with the sale of his house, his slaves, and chattels, and at the same time commissioned him to call in all his moneys out at interest. No inconsiderable amount must still be in his hands, and Charicles now went to ask for it. Diotimos was just engaged in paying a sum of money to a man, apparently a foreigner. Upon the table, from which he swept up the coin, after having found it right, lay a slip of paper, being his bond for the amount. 'You have received from me the sum, in ready cash, and all correct,' said the banker; 'and you leave nothing for it but a small piece of paper. . . . But remember that the law is on my side, and will defend my right.' The man asseverated his wish to fulfil all the terms of the contract, and then departed. Diotimos then reached his ledger, wrote a few words on it, deposited the paper in a box containing several others, and then turned to a second individual, who was waiting in company with a very common-looking personage. 'I have purchased,' said the first, 'from this man here a slave for two minae. By reference to my account book I find there must be seven hundred drachmae lying with you in my name. Pay the man his money.' The trapezites again looked at his book. 'In the main,' said he, 'you are right in your calculations, except that you have forgot the agio on three hundred and fifty Aeginetan drachmae which I paid to Pasicas for the ivory you bought.' This the man could not dispute; the two minae were paid, and the men went away. Now, for the first time Diotimos regarded the young men, who had remained somewhat apart. 'Who are you?' he inquired of Charicles, who now stepped forward, 'and what do you want?' 'I am Charicles, the son of Charinos, and am returned from Syracuse. For my credentials behold here my father's signet ring, which is well known to you. I come, as his heir, to require back the money that still remains in your hands.' 'So Charinos is dead?' exclaimed the banker.

'We have placed his ashes in Sicilian earth,' said the youth, 'until his most faithful servant shall have brought them here, to deposit them in the tomb of his forefathers.' The old man covered his face and wept. 'According to my father's will,' said Charicles after a while, when the other had become more composed, 'you must still have in your possession one talent and four thousand drachmae, which, in all probability, I shall soon require.' 'It is not exactly as you say,' replied Diotimos; but certainly your father could not possibly know that. It is only lately that three thousand drachmae more, were paid to me on his account; and besides that the capital has grown much larger by interest. 'You will have more than two talents and a half to receive from me.' He then explained to the youth how he had, by degrees, sometimes with difficulty, and not till after some years, contrived to get in all the moneys which were owing to his father by foreign merchants."

An important factor in the development of Athenian banking was the contract of marine insurance (which we know as Bottomry), and which from the risks obviously attaching to business of this kind naturally exacted a higher rate of interest than that usually current. The frequent occurrence of these contracts, and the large profits which were often the result, naturally gave an additional stimulus to the bankers of Athens to extend their operations, seeing that without their ultimate aid these contracts could hardly be entered into. The sum of money was lent for a definite term, and for a voyage to a certain definite place; the debtor being under obligation to sail to the place so designated, under penalty of exemplary punishment if the contract should be violated in this respect. The rate of interest naturally varied with the length of the voyage, and the risks likely to be incurred in the particular undertaking proposed; so that it is impossible to lay down any general average rate of interest as having prevailed in contracts of this kind. It is certain, however, that the interest generally charged on bottomry contracts was far higher than the rate which was current on ordinary business transactions on land; and in his speech against Phormio Demosthenes shows that the rate charged on that particular transaction was thirty per cent. This, however, seems to have been a somewhat higher rate than that usually charged, which was probably something like twenty per cent. In the case of vessels entering the Euxine, special conditions were attached to the contract, the rate being higher or lower according to the time of

year. Thus, if the departure from the Euxine occurred after the commencement of the cosmical rising of Arcturus, a higher rate was always exacted. As, however, in these cases the interest charged was a certain percentage basis of the capital, for short voyages a nominally far lower rate of interest might of course be equivalent to a highly enhanced rate on a longer voyage.

In the case of non-maritime negotiations the rates of interest prevalent were certainly far higher than in modern times. According to Boeckh, "the lowest rate of interest at Athens appears, apart from certain almost merely nominal payments of interest by the state to sacred treasuries, to have been ten per cent., the highest thirty-six per cent." The average rate of interest accruing to loans on deposit may be to some extent gauged from a passage in Demosthenes, from which it appears that his own father (who was interested in the two businesses of sword-cutlery and cabinet-making) had a talent out on loan with the 'trapezitai,' on which he drew yearly interest at 12 per cent. Elsewhere 16 per cent. is incidentally mentioned as the interest obtained by a mortgage of house property, while in the case of divorced couples, if the husband refused to hand over to the proper authorities the dowry which he had obtained with his wife at the time of their marriage, his wife's guardians could claim interest on the arrears at the rate of eighteen per cent.

There were two main reasons which prevented the banker's calling being held in the same repute at Athens as it has deservedly obtained in modern times. In the first place, banking was largely in the hands of men who were not in possession of the full privileges of Athenian citizens. Alicas and enfranchised slaves were at that time to be found amongst the bankers of Athens; and the prejudice thereby created against the profession naturally militated against even its most respectable and influential members. It is indeed almost impossible for the modern mind to estimate sufficiently the enormous influence on ancient life and habits which the presence of a large number of slaves exerted alike on the moral, the social and the intellectual atmosphere of the time. The continued presence of a large body of men, to whom all the more irksome and tedious duties of life were habitually delegated, necessarily produced amongst the community at large at least a tendency to the belief that all labor was in itself a degrading occupation. But this feeling, which was so natural a factor in the life of a

people to whom the enforced labor of a subject class was an habitual daily spectacle, was enhanced in the case of the Athenians by their own inborn dislike to constant or regular bodily exertion. The Athenian, as Mr. Edmond About has well said, was a "flâneur" by nature; and this inborn characteristic is curiously brought out in his very language, in which many of the words indicating "toil" or "labor" have gradually, in their adjectival forms and derivatives, come to signify either "miserable" or "wicked." It was only natural then that the Athenian should view with something of contemptuous toleration an occupation in which aliens and liberated slaves could and did successfully engage. But even so there must have been a fair number of individuals whose natural ability and unswerving uprightness could cause them to be regarded with goodwill and respect by the more thoughtful and intelligent of the Athenian citizens, and of such the banker Pasion, of whose life and circumstances we are able to gather from the pages of Demosthenes a tolerably complete idea, was a notable and familiar example. Pasion had indeed been born a slave, and had at one time been the property of the bankers Antisthenes and Archistratus. But by the punctiliousness and uprightness of his conduct, and by the display of business capability of a quite unusual kind, he had gradually won the favor and esteem of his masters, till in time he was not only enfranchised, but gradually raised to such a high and lucrative position that he was able to start banking on his own account. Even Professor Mahaffy, who in his "Social Life in Greece" endeavors to disparage the business habits of the Greeks, and to cast a slur upon their banking capacity, is compelled to admit the greatness "of this remarkable banker," and to allow that he "was evidently something of a power in Greece, and probably one of the best-known men in the crowded Piracus." The wealth and influence of Pasion constitute indeed one of the romances of early commerce: he was the "Dick Whittington" of ancient Greece. Though sprung from so lowly an origin, he gradually assumed a position amongst the mercantile community of the port of Athens which for relative importance may not unfairly be compared to that of the Rothschilds in European commerce. His credit extended over all the confines of the Greek world. His wealth was very great, and he was not only a banker who gradually acquired a practical monopoly in his own line of business, but a manufacturer on so considerable a scale that he was able to present

the State with a thousand shields, which had been turned out of his own factory. His character and ability were such that, notwithstanding his humble birth and servile antecedents, he was voted to the full citizenship of the Acharnian deme by the suffrages of its grateful burgesses. As an additional proof of his wealth, it may be mentioned that he actually, at his own cost, equipped five ships of war for the public service. When at length in his old age he retired from the banking business, he promoted his slave Phormio to the position of manager, giving him his freedom and entrusting the whole concern to him in return for a fixed yearly rental or charge of nearly seven hundred pounds. Phormio himself proved an excellent man of business, for at a time when nearly all the other banks in Athens were in straits he managed to weather the storm, and to prove to the Athenian world that honesty and ability could be combined in no ordinary degree in the person of a despised and lowly alien. And if men like Pasion and Phormio could be produced from one single banking establishment in the Piræus, we may reasonably believe that they were only types of a class, and that amongst the bankers of Athens there were many who rose to similar positions of influence and affluence by the display of like talents. The evidence indeed on which Professor Mahaffy endeavors to cast doubts on the generally accepted belief that the Greeks were the greatest and most successful traders of antiquity is of the slenderest and most partial kind; and, so far as banking is concerned, it practically rests on the one single fact that "when Pasion's son had his choice of a business worth 60 minae or a bank worth 100 in respective yearly income, he justly, says the narrator, preferred the ownership of the business establishment, on account of the insecurity of an income made from other people's money." To argue from such slight and insufficient premises is not only extremely unreasonable, but it is calculated to cast a slur on the study of a great and interesting period. The field of classical literature has too often been made the happy hunting ground of hasty and immature speculation, and evidence which would certainly not be held valid in a law-court is advanced as sufficient to support some new and extravagant theory. Any business in which a high rate of interest is obtained must necessarily, to a certain extent, be hazardous in its operations; and even in modern times it is notorious that positions of security with only a very moderate income attached, are able to attract large numbers of men in preference to the more highly paid

but less certain careers of professional life. But for some future historian in the year 4000 A.D. to argue from this, that professional life in Europe at the beginning of the twentieth century had fallen into a bad or degraded position, would be no more absurd than the argument by which Professor Mahaffy seeks to advance what is surely a rash and hasty generalization, utterly unwarranted by the facts of the case. Differences of income of a far more apparently glaring kind might be brought forward from modern life, yet to found any general theory upon such a fact would be manifestly unsafe. It is a well-known fact that at the English bar men have given up incomes ranging up to fifteen thousand pounds a year in order to obtain the security and dignity of a seat on the judicial bench, only worth one-third of that amount, and doubtless they are often justified in their choice when all the facts of the case are considered; but to advance this as an argument against the security or attractiveness of the English bar would be obviously in the highest degree unreasonable.

The real fact seems to be that, to the extent of our knowledge (which is necessarily to some extent limited, owing to the fragmentary and allusive nature of the evidence), we are justified in believing that, though to some extent the banker's calling was not regarded with high favor at Athens, yet the banking system and the general commercial activity of the Athenians attained a magnitude which, considering the size of the country, may well fill us with wonder and admiration.

Such, then, is a brief sketch of the main features of the system of banking which prevailed in the palmy days of ancient Greece. The development of banking was indeed in large measure synchronus with the unparalleled literary and national activity which characterized this wonderful people during a period which, though brief in point of time, was destined to exercise an ever-widening influence on subsequent civilizations. Commerce and war, art, philosophy and literature alike flourished side by side in the genial surroundings of Attica, and in almost every department of life were produced works which were destined to be models for future generations. And what is true of literature and art is almost equally true of the great principles of banking. The system of Greek banking transplanted to the shores of Italy became the model from which the Romans themselves largely copied. And if it be true that in Venice the first germ of modern banking is found, it is none the less true that in the busy mart of ancient Athens

those principles were inaugurated on which alike the theory and the practice of modern banking must for all time be based. Athens, indeed, in the evolution of her banking system, gave one more proof of the extraordinary vitality and versatility of the Greek people. This is all the more remarkable if we consider the extreme smallness of the country from which such mighty and such varied influences were disseminated. Attica itself consists of only 640 square miles, being about the size of the small Scotch county of Lanarkshire, while the English county of Yorkshire is nearly ten times as large. And yet this diminutive division of Hellas, which was only about three times as large as the island of Montreal, was the centre which controlled alike the philosophy and the commerce, the arts and the literature of ancient Greece.

R. E. MACNAGHTEN.

UNITED STATES BANKING SYSTEM.

The following extremely interesting remarks on the United States banking system were made at a dinner in the Toronto Club, tendered to Mr. J. B. Forgan, president of the First National Bank of Chicago, by Mr. H. C. McLeod, general manager of the Bank of Nova Scotia. Mr. Forgan's first remarks were a high tribute to Mr. Fyshe, general manager of the Merchants Bank of Canada, and Mr. Forgan's chief when the speaker entered the Bank of Nova Scotia. Mr. Forgan said in part:

"Whatever of success I have achieved in my banking career since I left Canada, I attribute entirely to my training under Mr. Fyshe, in the good old Bank of Nova Scotia, which I still cherish as my *alma mater*. I have since acquired that confidence in and enthusiasm for the United States which life in the country and connection with its institutions cannot fail to inspire in every one of its citizens. Its Government is established on a rock, its resources are enormous, and its possibilities unlimited. A comparison of its banking system with yours (and having had experience under both, enables me to make such a comparison), compels me, however, to admit that we have many things to learn, and a great deal to do before we can establish or evolve as sound and perfect a system as you have here. We have developed a system of isolated banks over ten thousand in number, each under its own separate and distinct management, and working for its individual profit without regard to the rest. Our chief trouble is, therefore, the lack of a system. The component parts of a system must work together for mutual benefit. We have built up many sound and strong institutions, and, as a rule, our banks are in excellent condition. They will all, with very few exceptions, stand the most searching examination of either a Government inspector or any other expert.

There is very little bad banking in the system, notwithstanding that a Canadian woman has recently cut such a swath in Ohio with her bogus securities and done up a few of the fraternity there. Our banks, as a rule, are run on conservative lines, they maintain strong cash reserves and the individual management is good. This much experience has taught us. Our trouble is not with the management or methods of our individual institutions. These average high and will compare favorably, I believe, with those of this or any other country. With the rapid development of our enormous resources, we cannot expect and do not have interrupted prosperity. We push ahead too fast and frequently overdo. Once in a period of years we are pulled up short, compelled to harbor our resources, recuperate our strength, and take some long breaths before we can make another advance along the line of prosperous development. When these lulls in our progress occur our people are very liable to become nervous and frightened. It is then that the lack of system is noticeable. In-

stead of being able to act together and concentrate their reserves for the strength of the system, our ten thousand banks do just the reverse. Each one acts for itself, the fears of the customers spread to the bankers, and what is known as a bankers' panic is the result.

Besides the bad effects of such conditions in times of financial stress, we are grossly extravagant in the use of our cash reserves in ordinary times. A country bank cannot order $25,000 or $50,000 of currency to be shipped to it by its reserve agent without immediately depleting the cash reserves of that agent to the same extent. Under your system, when one of your branches needs $25,000 or $50,000 of currency you send it your own circulation, and it is only counted as a liability against you after the branch has paid it out. Or if you do ship to a branch $25,000 or $50,000 in gold or Government notes, the money is still yours so long as it lies in the vault of the branch. With us every such shipment is an absolute parting with so much of our cash reserves, and at certain seasons in each year it ties us up pretty tight at the centres, while at others we have more money on hand than we know what to do with. The advantage you have here is in the combination of your branch banking system with your excellent system of bank circulation, which has sufficient elasticity in it to ebb and flow with the varying tide of public business necessity.

Another weakness in our system which I think will ultimately have a tendency to bring about a change in our methods and the establishment of a system is the lack of our ability to train men to take the management of our moderately sized banking institutions. This weakness in our system becomes more and more apparent as time advances. It is now quite a pronounced weakness, and as I have already said, I think that it will tend to bring about a change of sentiment in regard to branch banking. If our large banks were permitted to establish branches this difficulty would be solved by their buying up such institutions and placing competent men in charge to manage them as branches.

I would not have you understand that I am at all alarmed at the banking situation in our country. Under our system, imperfect as it is, have grown up many strong institutions, and our banks and bankers, as a whole, are of a high grade. Our strength is in the fact that our banking institutions are individually sound, but banks cannot stand to have their strength tested by public runs on them to see if they can pay out quickly under enforced liquidation. The wonder to me is that they stand such tests as well as they do. Of course, as the country grows in wealth the banks are growing in strength, and I believe that even with our lack of system, individual institutions are being built up that will weather any storm. Our growth is phenomenal, and our recuperative power is wonderful."

THE DOMINION OF CANADA IN 2004.

BY JOHN KNIGHT.

> True, I talk of dreams,
> Which are the children of an idle brain,
> Begot of nothing but vain fantasy;
> Which is as thin of substance as the air,
> And more inconstant than the wind.
>
> —SHAKESPEARE.

You ask me to project my mind forward one hundred years, and to picture the condition of things in general, and the banks in particular in 2004. I have honestly attempted to do your bidding. This evening I filled the bowl of a beloved pipe with strong Canadian tobacco, and let the steeds of the brain go browse at will into the future. Through the smoke-wreaths from my pipe I have looked steadily ahead, until what I am pleased to call my mind has found anchorage a century hence.

Have you ever seriously considered, my good friend, what it would be like, if we were permitted to return from whatever port we are both fast making, and to peep at our common country in the year 2004?

I am looking forward now, and like Sydney Carton, immortal creation of Dickens, I will try to write down the thoughts that inspire me:

"I see the banks reduced in number, but having their branches established in all directions. I see a great and wonderful Dominion, with railway communication extending even to Baffin Bay and the Yukon. I see fields of golden grain covering a country vast and boundless, and filled with fifty millions of happy and prosperous people. I see new cities and flourishing towns in Manitoba, Alberta, Athabasca, British Columbia, and the Valley of the Saskatchewan, and contentment and prosperity everywhere. In the Maritime Provinces, once famous for building and manning wooden sailing vessels, I see immense shipyards swarming with thousands of workmen engaged in constructing leviathan steel ships, to be employed in bartering Canadian produce with distant worlds.

In the Province of Quebec and Ontario, I see a still mixed race working together in peace and harmony for the advancement of a great country in art, industry and science, grateful for a glorious past, and filling the times in which they live with good work.

I see peace, prosperity and happiness throughout the land over which floats the flag for which, as ever, the people are willing to fight and die.

I see the youth of the country attending the splendid universities so magnificently endowed by the men of to-day, the names of the latter honoured and held sacred by grateful students flocking to the seats of learning from the towns, villages and hamlets of Great Canada.

I see the brightest and best men in the country no longer apathetic and indifferent about its welfare, but in control of its destinies, and willingly devoting time to the conduct of public affairs.

I see the banks, as stated at the beginning of this letter, reduced in number, but having innumerable branches. I see that the mechanism differs somewhat from that of our day. The arithmometer, and the type-writing machine have made mental arithmetic unnecessary, and chirography a lost art. I see the bank manager, as of old, enjoying the esteem and confidence of the people. The banking rooms are handsome, spacious, bright and well ventilated, and the workers therein are in receipt of salaries commensurate with the positions of trust and responsibility they hold. The ever-increasing wealth of the people is, more than ever before, entrusted to the bankers, and by them judiciously employed in the channels of trade and commerce at home and abroad. I see that the methods and practice of Canadian banking in 2004 have not materially changed since our term upon earth. The bank manager adheres with a faith that never falters, to the path of prudence and safety. He knows that there is no new and royal road to success in his particular calling, and he is governed by the experience and wisdom of his predecessors in office.

I see a group of banks of unquestioned strength and character maintaining the reputation of Canada for having financial institutions equal to the best in the world. I see their branches affording banking facilities to the pioneers of

progress in some still unsettled districts in the distant north.

* * * * * *

Under the soothing influence of tobacco, I am fast travelling in the direction of the borders of dreamland; but once again, at your request, I will project my mind into the future. I now see some of the Canadian cities, so well known to me in the present year of our Lord, and I note the changes therein. I see the cities of Montreal, Toronto, Winnipeg, Halifax, Quebec, Saint John, and other vast metropolitan municipalities, free from the grasp of monopolies, and rejoicing in civic possession of light, heat and power, and all the utilities of life, and supplying same to the people at the lowest possible cost. The changes along this line are visible everywhere, and remind one of the saying, respecting a citizen of the future, used in the early days of public ownership: "He may be born in a municipal hospital; be educated and trained in municipal schools and colleges; may earn a living by working for his city in a score of capacities; he may retire on a municipal pension; may die and be cremated at public expense; or his bones may rest in a municipal graveyard."

As, in my mind, I see the people of 2004 enjoying hundreds of petty conveniences, the privation of any one of which would grievously disturb the temper, and affect the comfort of the world at large, I find myself comparing the ages, and, dividing time into past and present, and, weighing one against the other, I fall asleep—only to dream again of 2004. I see in dreamland a small boy bearing my name. I see him trying to decipher the inscription on an urn containing his great, great grandfather's ashes. The epitaph is the same as that which the skeleton in Mark Twain's short story, "A Curious Dream," complained of as affording amusement to his fellow skeletons in the graveyard by reason of its ambiguity: "Gone to his just reward."

TO BRANCH MANAGERS.

The following semi-humorous suggestions to branch managers, made from the Head Office standpoint, have recently been distributed by an English bank to its correspondents. They are selected extracts from an article published in the October, 1904, number of The Bankers' Magazine, of London, and may serve to amuse some Canadian branch managers, and perhaps prove an instructive warning to others.

Don't try to advertise yourself at head office; or, if you cannot help doing so, do it artistically. Suppose, for example, you have recently been appointed treasurer of a representative local association. Don't immediately flood your head-office with local papers giving an account of the meeting, a brief sketch of your career, and a verbatim report of your speech after the election. Wait until the distinction is followed by the penalty, and *then* forward to headquarters the request for a subscription. In so doing you cannot help, however reluctant you may be, mentioning the fact, that notwithstanding that Mr. A. of the London and Loamshire and Mr. B. of the London and Suburban Bank actively canvassed for the appointment, you were so fortunate as to obtain it by a majority which astonished no one so much as yourself, and that you trust, etc., etc. The height of art is to conceal art.

Don't crawl, either to customers or to head office. An erect attitude is more effective in both cases, and has the additional merit of enabling you to retain your self-respect. Remember, on the other hand, that the word truculent is not a synonym for the word erect in this connection.

There is no harm in occasionally adding as a postscript to your head-office letter:—11.45 p.m. Since writing the foregoing I have seen Mr. Snooks, and after a long conversation, have persuaded him," etc., etc., but don't forget that such additions to your letters, if repeated frequently, are apt to pall. Be especially careful too, not to post such a letter earlier than 11.45. Don't habitually supplement Saturday's letters by a Sunday missive, or at any rate take the precaution, before doing so, of ascertaining that the official to whom you write is not a Sabbatarian; otherwise, notwithstanding the zeal indicated, the object of your further letter may be defeated.

Don't enclose, to be read and returned, rambling and irrelevant letters from customers, especially from lady customers, even when they end on a note of warmest thanks for your unremitting attention to the interests of the writers. If a brief summary of the essential features of the correspondence will not quite meet the case, set a youngster in your office to work to copy out certain passages, including the flowery ones at the end, and run your pen (lightly) through the latter before forwarding the budget.

In dealing with would-be borrowers, don't forget to ask your awkward questions at the first interview. *Ce n'est que le premier pas qui coûte.*

Don't imagine that in your bank there are two classes of officials, one class at the branches trying to obtain and to keep business, and the other at headquarters endeavouring to refuse and lose it. Give your head-office officials credit for being to the full as anxious to get and to preserve business as you are yourself, and if they decline transactions which you put before them, depend upon it they do so on good grounds and in the interests of the institution as a whole.

Don't side with your borrowing customers against head office. After all, it is the bank which pays the piper, and has the right to call the tune.

Don't call on head office too frequently, especially when there are good appointments vacant and under consideration. The object of your call may be misunderstood. On the other hand, don't hesitate to call for a few minutes once in a way if you happen to be in town. On such occasions it is not advisable "in order to save time," to produce from your pocket a list of rough notes from which to make verbal replies to questions which have been raised in correspondence. To do this is to convert a highly-paid head-office official into your clerk for the time being.

Don't submit a verbal proposal when it is anyhow possible to put it into writing. Call and supplement your written statement, if you will, but remember that "verbal communications corrupt good management."

If a customer or a friend has a son or protégé who, after some years' experience as a schoolmaster or a curate, would like to enter your bank for the sake of improving his prospects, don't trouble head office about it. Nip the application in the bud, even though the applicant "would be content to begin at the foot of the ladder." Apart from general considerations weighing against their applications, these "foot-of-the-ladder" candidates invariably show a tendency, if given a start, to skip the lower rungs.

Unless you have previously satisfied yourself that your general manager comes to town by a workman's train, don't write to head office saying that, unless you receive a wire by 9 a.m. on the following morning, you will adopt a certain course. The device is too thin.

In dealing with requests for advances, don't transmit your customer's proposals to head office in a raw, crude state. Knock them into shape first. A man need not be a banker in order to forward a proposal in the form in which it reaches him. Anyone can do that. Obvious amendments and supplements should be suggested to the would-be borrower by the branch manager in the first instance, not left for head office to point out.

Don't, except in very special circumstances, suggest to your borrowing customers that they should call at head office with regard to their affairs. To do so is often a sign of weakness and of inability

to say "No." When it is necessary to refer an important client to head-quarters, take care to send on, in advance, all necessary information, together with your own view of the matter to be discussed.

If your branch is remote, and you have occasion to recommend an advance to Mr. Smith because it would please Mr. Jones, don't forget to say, and on later applications to repeat, who Mr. Jones is.

Don't take all the foregoing suggestions too seriously, but realise, on the other hand, that there may be a few grains of truth amid the chaff.

CONCERNING THE JUNIOR BANK CLERK.

The bank clerk's future career rests with himself. For, as in every other line of life, industry is the keynote to assured success, so too, does a bank clerk chiefly depend upon industry for his advancement. And every junior should keep this firmly in view; for while senior men know it by experience, the juniors have it to learn. The young man, on entering a bank, should remember that he has before him years of work—much of it seemingly unprofitable, and a great deal of it unpleasant—but meanwhile he is learning one of the most interesting and difficult of professions. He may have to spend years of his life doing routine work, and he will begin his career on a small salary, while the management are putting him through this unconscious process to prove his mettle. But if his work is well done at first, he will probably keep up to the same standard later. If, on a small salary, he lives without getting into debt, when he later has under his control the funds of others he will have gained the ability to guard them prudently and safely. No one likes doing the same thing year-in and year-out. Yet the very doing of such work, carefully and conscientiously, has a lasting effect. Carefulness is necessary in every vocation of life, but to the banker—his very existence depends upon it. He, also, who consistently is economical, gains a reputation for carefulness, which becomes a splendid asset. But economy must not be confused with selfishness, for selfishness is mere personal extravagance. Stinginess also is to be avoided, for business demands more of generosity than it does of meanness.

There is a natural and inevitable error, which each junior suffers from, to a greater or less extent. To leave school and for the first time be treated as an equal by business men is too much, and he loses his head. In after years he will see his own past foolishness, reflected in younger companions, and by that time will have realized that that consideration shown him was but a part of our necessary commercial machinery—ordinary civility.

Politeness is one of the first things for a junior to grasp the true meaning of. Many prospects are spoiled by an unpleasant manner, or by rudeness; and to any one wishing to become a banker, civility to everyone, both great and small, is essential. The bank, and its clerks, having a reputation for politeness, attracts the best customers and business, and not only does politeness cost nothing, but every one reaps its benefit.

Accuracy may possibly become developed, and accuracy with speed may, perhaps, be acquired, but accuracy with speed, combined with the power for careful observation is only the result of unceasing painstaking work. Never let anything pass by, without understanding its true nature. For such business is but the beginning of increasing carelessness, and laziness is but the careless handling of one's convictions.

Honesty is the essence of banking. A reputation for dishonesty once obtained, and a man's whole life becomes overcast. A junior, living on a small salary, has difficulty making ends meet, but does not every higher officer have just as grave troubles, and with increased responsibility; does not also everyone in life suffer from such things? Specially to the young man is dishonesty injurious, for youth is the age when one's character is moulded, and a few knocks, more or less, when one can stand it, are better than a misspent life, with its faults —realized too late.

Similarly, the discipline the young man has in a bank is as necessary for the working of the bank as it is necessary for his own character, for his early years in a bank are but training. Continued watchfulness, care and diligence should be his standards.

The busy man should have, as an offset to the perpetual grind, some hobby or some sport, entirely remote from work. Open-air life is the most refreshing, and whatever may be the initial expense, it is quickly repaid with the increased capacity for work. Active sports are the best, for firmer friends are made, and he who is able to hold his own in manly sport, will be the more able to do the bank justice in his daily intercourse with customers. The health will improve, and his self-reliance be assured.

Bank officials always keep a careful watch over their staff, noting their companions, and how their spare time is spent. Even if such were not the case, the judicious selection of

friends, and the careful spending of spare time is the best possible investment. For as a man is known by his friends, so is his mental calibre judged by his amusements.

Nor should he neglect to read up financial subjects, and those questions dealing with his work. He should keep in touch with all persons, whom he finds can give him good advice. At all times should he keep his eyes open, for in banking, as in any other profession or business, the successful one is the man who keeps ahead of the times.

The junior, with the reputation for careful work, is the first choice for the next promotion, and an early start will push him forward all through his career. Routine work of the kind a junior has necessarily the most to do with, may appear uninteresting. But let him remember that he is one of the many, helping to adjust the gigantic machinery of the commerce of the world. Every effort of his early days will make more pleasant his declining years. Everything done now will make more easy the work to be done in higher positions, and the greater his present effort, the greater will become his reputation, and the financial recognition of his work.

G. E. KINGSFORD.

TABLE OF CLEARINGS

Comparative Totals of Bank Clearings for the past four years at the cities of Montreal, Toronto, Winnipeg, Halifax, Hamilton, St. John, Vancouver, Victoria, Quebec, Ottawa, and London.

(000 omitted)

	1904	1903	1902	1901
Montreal	$1,065,067	$1,113,978	$1,098,970	$895,612
Toronto	842,097	808,748	809,078	625,271
Winnipeg	294,601	246,108	188,370	134,199
Halifax	90,116	93,350	88,532	87,162
Hamilton	59,003	53,420	45,965	42,555
St. John	51,423	49,013	42,424	40,378
Vancouver	74,030	66,216	54,468	47,621
Victoria	33,070	30,818	28,570	30,801
Quebec	79,844	88,329	73,247	49,913
Ottawa	106,638	106,084	95,469	*28,828
London	45,552	42,831	*23,098	

* Part of year

QUESTIONS ON POINTS OF PRACTICAL INTEREST.

REPLIES may be obtained through this column to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

The questions received since the last issue of the JOURNAL are appended, together with the answers.

Agent's Authority to Act.

QUESTION 597.—The A. B. Company of Montreal keep an account with a bank in that place; they have an agent in Halifax who keeps an account there with a branch of the same bank. The agent in Halifax is empowered by his principals to endorse cheques for deposit, and drafts and bills put into the bank for collection, but he has no authority to borrow money or to draw cheques upon the account. These instructions were given by the head office of the company to the bank in Montreal, and by them forwarded to their Halifax branch. The agent of the Company in Halifax occasionally puts in paper for discount payable to the company, endorsed by himself on behalf of the Company, which goes to the credit of the company's account in the books of the bank in Halifax, whence it is subsequently drawn out by the cheques of the properly authorized officials. It eventually turns out that the Halifax agent of the Company is a defaulter, and upon a complete investigation of his affairs it is found that he is $5,000 short, that sum being practically the equivalent of the amount that he has then running in the bank under discount in the company's name. The question is, upon whom must this loss fall, the bank or the company. The company contend that by exceeding their written instructions, and permitting the agent to anticipate funds, the bank has enabled their employee to defraud them, and they claim that under the terms of the agent's authority which was clearly advised to the bank, his

endorsement as their attorney is not sufficient to convey their property to the bank, and they maintain that the paper under discount should either be handed back to them, or treated as being in the bank for collection on their account. The bank does not deny having exceeded its authority, but contends that as the proceeds of all these discounts went to the credit of the company, and were drawn out by the company's properly signed cheque, the bank is entitled to the possession of the bills, having given full value for them, but the bank is willing to admit that in the event of any of the paper being dishonoured, it would not, under the endorsement, have any recourse against the company.

ANSWER.—A salient point not disclosed in the question is whether the properly authorized officers of the company had knowledge that cheques issued by them on the Halifax account withdrew moneys derived from notes discounted by their agent there. Otherwise, it would be judicious for the bank to adjust the account so as to produce the same result as if the notes had not been discounted, and to surrender the notes which were discounted to the company. The company might under these circumstances endeavour to show that it had suffered damage by reason of the bank having discounted the notes.

Bills for Acceptance—Return of Same for Completion.

QUESTION 598.—Another bank sends us a draft for collection not endorsed by them. It is payable to order of drawers and not endorsed by them either. I return it same day of receipt for completion.

Drawers claim we should have obtained acceptance first before returning and further, if we considered there would not be time to get it back completed before it fell due—it was a sight bill—we should hold till due and mark same before returning.

Would such a course not be open to objection on our part? We get such cases fairly often—six in one week. It is carelessness on part of drawers and of forwarding bank.

If we followed desired course of above drawers, we might have several items charged to customers' accounts for which we could produce no vouchers. In the event of any of them being

lost in the mail, would not the question arise, "At whose request did we mark the items?" Not having done so at the request of any party to the draft, but quite on our own initiative would we thereby be in any undesirable position?

ANSWER.—Bill should be presented for acceptance and then returned for completion.

A bank cannot be required to certify an incomplete bill.

Insolvency—Claims Upon Estate in Different Provinces.

QUESTION 599.—A. residing in the Province of Quebec, and B. residing in the Province of Ontario, carried on business as co-partners in the Province of Quebec. The firm failed and assigned, as did likewise the respective partners.

C. had discounted the firm's note, endorsed by one of the partners—B.—who owned valuable real estate in the Province of Ontario and also owed personal debts there to a considerable amount.

Is C. entitled to rank against the insolvent estate of B. on equal terms with the latter's personal creditors?

ANSWER.—C would be entitled to rank against B's estate on equal terms with other personal creditors of B.

Bills Discounted (on or Before).

QUESTION 600.—A note is drawn "on or before January 1st, 1905, I promise to pay, etc." Could this note be collected before January 1st? If not, what is the meaning and use of the wording "on or before?"

ANSWER.—The promissor may exercise the option expressed of paying on 1st January, 1905, or before that date, but payment could not be enforced until the date definitely fixed. The usefulness of this might be in freeing securities or saving interest if note is payable with interest.

Telegraphic Transfers—Payment to Wrong Party.

QUESTION 601.—John Smith having a deposit in a Toronto bank is in San Francisco, wires his bank in Toronto to telegraph $100 to his credit with First National Bank, San Fran-

cisco, at the same time to advise him by wire. He calls and is paid his money.

In the meantime a confidence man learns of this transfer and the particulars from Smith.

The confidence man wires the Bank in Toronto, in Smith's name, to place $100 to his (Smith's) credit with the First National Bank, Sacramento and advise him.

The confidence man gets the telegraphic advice, walks into the bank, presents the telegram and says he is John Smith. The bank pays him $100.

(a) Where does the responsibility rest?

(b) Where would it rest if only Canadian banks were concerned?

ANSWER.—(a) The responsibility must rest upon the bank which paid the money otherwise than to the payee designated.

(b) The same would apply as between Canadian banks.

Bills for Acceptance—Can Post-dated Cheque be Regarded as Acceptance.

QUESTION 602.—(A) A collecting bank presents a draft for acceptance in the usual way. The drawee returns the draft unaccepted, but with his cheque attached for the same amount as the draft and dated the day the draft matures. Is the bank justified in treating this as an acceptance of the draft?

(B) Under similar circumstances the drawee attaches his cheque for a different amount than that of the bill, claiming that the latter sum is all he owes. What should the bank do under these circumstances?

(C) If in the above cases the bills were drawn "no protest," would that make any difference?

ANSWER.—(A) A post-dated cheque cannot be considered as an acceptance. Circumstances might arise before date of cheque that would cause drawer to stop payment of it.

(B) Treat bill as dishonoured, and refer the matter to drawer.

(C) No.

Cheques—What Constitutes Valid Countersigning of Same.

QUESTION 603.—(A) Is "I" or "We jointly and severally," the correct wording of a note signed by several men?

(B) Is a name written across the end of a cheque equally countersigned as one with the name signed at the bottom. One of our customers was told today that his name signed across the end of the company's cheque was not the meaning of a countersigned cheque.

ANSWER.—(A) "We jointly and severally."

(B) Quite as good.

Usury.

QUESTION 604.—If a bank collects interest on a demand note for several years at a higher rate than seven per cent., and finally has to sue for the principal, can the defendant claim anything in excess of seven per cent., which he has paid as being a payment on the principal?

ANSWER.—Jurisprudence in both the Provinces of Quebec and Ontario is conflicting, and decisions are old.

The probable intention of the Act is that a usurious excess of interest collected should go in reduction of the principal.

CORRESPONDENCE.

4 Paper Buildings, Temple, E.C.

December 20, 1904.

John Knight, Esq., Montreal:

Dear Sir,—I have been very much interested by the report of Ewing versus Dominion Bank and the able article thereon by Mr. Holt, contained in the July number of your JOURNAL, which you were so good as to send me. I see that the Judicial Committee have refused special leave to appeal (1904, A. C. 806) so that the case can go no further. I am somewhat surprised that their Lordships appear to have considered that no important question of law was involved. because, as Mr. Holt points out, the Ewing case goes beyond any English decisions, and it certainly raises a question of great importance to bankers, and decides it in a way for which I was unprepared, but which I should be only too glad to see universally recognized. I quite see that in Ewing's case, if a legal duty existed, the facts were more than sufficient to support an estoppel. My doubt is as to the duty. It seems admitted that without a duty there can be no estoppel by silence. The question is whether the duty to give notice of forgery to a banker in whose hands the forged instrument is known to be extends beyond the customer, and whether it makes any difference that the bank have asked for confirmation of the signature, expressly or by implication. As to the first point, Schoifield v. Londesborough, 1896, A. C. 514, seems opposed to the doctrine of a duty arising out of the ordinary habits of business men. I doubt if there are more than two classes of legal duty, one derived from contractual relation, the other based on the necessity for the physical safety of the community. I think the "duty by usage of trade or otherwise" and the "interest to prevent an act being done," which are the groundwork of the earlier definitions of estoppel by silence must be referred to the first of these classes. It is very difficult to deal with McKenzie v. the Linen Bank. It cannot be disputed that

on the face of it that case strongly supports the decision in Ewing's case. The passages cited and the words of Lord Selborne on the bottom of p. 92 unquestionably imply that had the bank incurred loss after McKenzie knew of the forgery, he would have been liable—and he clearly was not their customer.

The point does not appear to have been argued, and in none of the judgments is it referred to. Can it be that the House were under the impression that McKenzie was a customer. It is curious that in Ogilvie v. West Australian, &c., the Privy Council, at p. 268, say: "It is obvious that the question of estoppel arising in these circumstances differs widely from the question, which was discussed in McKenzie v. the Linen Bank and similar cases. The ground upon which the plea of estoppel rested in these cases was the fact that *the customer* being in the exclusive knowledge of the forgery, withheld that knowledge from the bank, until its chance of recovering from the forger had been materially prejudiced." And it should be noted that Lord Watson was one of the Court both in McKenzie's and Ogilvie's cases.

Both on this point and on the second, Barton v. the London and North Western Ry., 24, Q. B. D., 77, seems important. There notice was received by the plaintiff from the Company, stating that a transfer purporting to be executed by her had been lodged and that unless the Company heard to the contrary within a specified time, they would proceed to act upon it. She did not reply and the Company transferred the stock. The Court of Appeal held that she was in no way estopped from setting up that her signature was forged—Yet one might have supposed a duty was due from a stockholder to his company. In some of the Scotch cases quoted in McKenzie's case, the disregard of notice by itself was not treated as material. If received, such notice no doubt, fixes the recipient with notice that his name has been used but the sender is hardly justified in treating silence as evidence both of receipt and acquiescence.

I think that in Ewing's case, the Court put the effect of Wiedemann v. Walpole far too high. The Court of Appeal in that case was most careful to confine the rule to statements made in business letters between business men as to some past business transactions between the parties, the non-denial of

which might amount to an admission that the transaction was as represented. Admission though analogous to, is distinct from estoppel. I want to deal with Ewing's case in the next edition of my book on Banking Law, and any help Mr. Holt or any other of your contributors would give me would be most gratefully received. Let me take this opportunity of thanking you for regularly sending me your JOURNAL, which I find most useful and instructive and have quoted frequently.

Yours faithfully,

JOHN R. PAGET.

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EDITORIAL NOTES

The first bank failure since the incorporation of the Canadian Bankers' Association occurred at Yarmouth last month and the revelations are most regrettable and disgraceful.

Bank of Yarmouth.

When the bank suspended payment, a curator was appointed by the President of the Association, in accordance with the by-laws of that body. A local advisory board, consisting of three branch managers at Yarmouth, has also been appointed to act in conjunction with the curator in looking after the affairs of the wrecked institution. The causes that led to a disaster which entails a loss upon the people of the county of Yarmouth, N.S., of fully half a million of dollars, were, when the bank closed its doors, quickly exposed by the trained bank officials, who, under the new condition of things, furnish all such information touching the affairs of a suspended bank as the Executive Council may

require. While the failure of the bank in question affords no reason for Government inspection of our banks, it is not amiss to look for any possible means of preventing a recurrence of such a lamentable failure as that of the Bank of Yarmouth. Perhaps the bankers themselves may provide a preventative.

Banker and Customer.

The case of the Bank of Yarmouth furnishes another example of a bank manager being dominated by his customer. It is not the first instance of an old and experienced bank official wrecking the institution entrusted to his keeping by yielding to the specious and plausible stories told by some customer, whose account from being at first alarmingly large becomes at the last unmanageable. Then the dread of disclosure of the true condition of things to shareholders makes the bank manager and his directors the easy prey of the unscrupulous customer, and demands for more money wherewith to feed a bankrupt business become ceaseless.

In the case of the Bank of Yarmouth, when the bank had been drained of its resources by the controlling customer, the latter died for lack of further nourishment, and his victim's name was added to the fortunately short list of failed Canadian chartered banks. As usual, when such a disaster as the wrecking of a bank inflames the public mind, all sorts of suggestions for preventing recurrence of trouble and loss are scattered broadcast throughout the country.

However, much as bankers may regret that things are as they are in the case of the Bank of Yarmouth, its fate may serve as a warning to others of the dangers arising from concealment of losses.

Notes of Failed Banks.

It is gratifying to know that while the information already gleaned about the affairs of the Bank of Yarmouth is a sickening recital of the ruination of its shareholders, the curator is able to report that the circulation accounts of the bank have not been tampered with. When the failure was announced to the Association, statements of all the notes supplied to the Bank of Yarmouth by engravers for thirty years past were sent to the curator, and, upon

examination, he found the records of receipt of notes were correct and the amount outstanding properly shown. While it may be too early to regard this as an illustration of the strict supervision maintained by the Canadian Bankers' Association over the circulation of notes of which each and every member of the Association is a guarantor, it may fairly be claimed that the authorities at Ottawa acted very wisely when they gave to the bankers the supervision of the making of notes intended for circulation, the delivery thereof to the banks, and the inspection of the disposition made by the banks of such notes.

Bank Charters.

Applications to Parliament for extension of the time granted for organization of the new banks for which charters are obtained have been altogether too frequent, and it is gratifying to note that the Minister of Finance has intimated to the promoters that, unless their reasons for desiring extension of time are very sound, he will, in future, oppose their applications.

Directors and Stockholders.

THE CHICAGO BANKER, in the course of some comments upon the annual reports issued by Canadian banks, says:

"The stockholders of the chartered banks of Canada are taken into the confidence of their directors in a manner that might be well imitated by the directors of state and national banks and trust companies in the United States. The annual reports of these banks give to the stockholders, and through them to the general public, full information of their operations, in addition to the general statement of assets and liabilities and a profit and loss account."

The reports given to the shareholders of our chartered banks are as a rule deserving of the praise bestowed upon them by our neighbours. At the same time, every member of the Canadian Bankers' Association must regret that instances, very few and far between, have been known which serve to shake public belief in the absolute accuracy of the statements submitted to shareholders. Possibly, when directors of banks and trust companies are selected solely for their character, ability and sense of duty,

and never for the reason that they possess the necessary qualification in a monetary way only, every statement issued by a Canadian bank or a trust company will merit the complimentary remarks of THE CHICAGO BANKER.

Fire Waste.

The recent after-dinner addresses given at the Canada Club, Montreal, by Mr. C. M. Hays, upon "The Grand Trunk Pacific Railway," and by Principal Peterson upon "The University in a Commercial City," were made most interesting chiefly by reason of the special knowledge possessed by the speakers of their subjects. The value of thorough acquaintanceship with the matter about which one is talking or writing is equally exemplified in an article on "Fire Waste, Fire Protection and Fire Insurance," by Mr. T. L. Morrisey, Resident-Manager for Canada of the Union Assurance Company of London, England. True knowledge is very valuable capital with which to set forth in life, and Mr. Morrisey possesses such a full fund of knowledge and experience of the subject of fire insurance that he is able to write in a forcible and most convincing way upon a matter of concern to every thoughtful Canadian.

Hitherto too little attention has been bestowed upon the annual fire waste of Canada, and we fully deserve the subtle rebuke to our carelessness conveyed in the opening sentences of Mr. Morrisey's admirable and interesting article.

There is a close bond of union between banking and insurance, and readers of the JOURNAL cannot do better than peruse with much attention an article from the pen of a writer who is admitted by his brethren to be one of the best fire underwriters in the Dominion of Canada. When a conservative estimate places the value of property annually destroyed by fire in this country at ten million dollars, it is high time that the subject received grave consideration by bankers.

The comments made by Mr. Morrisey upon the unreasonableness of City Councils and Boards of Trade are trenchant but true. Insurance rates must always, as he states, be largely regulated by experience, in accordance with the principle of mutuality underlying all forms of insurance.

Readers of the JOURNAL cannot but welcome the addition of Mr. T. L. Morrisey to its staff of writers.

As an illustration of the keenness for business displayed by our banking neighbours in the United States, the following story is now being circulated. At the annual meeting of a Bankers' Association in one of the Western States, the members, anxious to find some novel entertainment for their visiting brethren from New York and Boston, obtained permission from the sheriff for the bankers from the East to witness the hanging of a noted desperado.

It Pays to Advertise.

On the morning of the execution, the sheriff, with a proper sense of the importance of his guests, said to the condemned man, "There aint no desire to swing you off in any indecent haste, and if you'd like to say a few words to the gentlemen present, you can have three minutes." The victim of the law responded with a single sentence of invective and refusal of the sheriff's offer, and then one of the enterprising bankers from the East advanced to the front and said, "If the gentleman most concerned in the coming function does not wish to avail himself of the few minutes so kindly placed at his disposal by the sheriff of this county, I would like to take this opportunity of saying something to you about the advantages of doing business with the bank of which I am the vice-president."

From time to time incidents occur in connection with international loan negotiations on which it is profitable, and not lacking in amusement, to reflect. Recently, it appears, France and Germany have been competing for the privilege of lending a substantial sum to Turkey. But Turkey is not such an ideal borrower that a straightforward struggle to secure the right to lend her money has the appearance of reasonableness. The placing of orders for guns is bound up with the loan. Financiers are a little ashamed to dispute over who shall lend money to a borrower on the verge of insolvency, but they can squabble over the placing of an order for warlike equipment. Yet all it amounts to is this, that each desires the privilege of supplying guns and taking in payment a promise to liquidate the account at some indefinite future date, interest being forthcoming on its amount in the meantime—*perhaps*. The fallacy of making employment appears here again. One wonders if equally easy credit to some of the citizens of the lending states might not evoke orders for native products affording equal employment for labour, and possibly superior prospect of getting paid for it.

An International Loan Incident

The apparent growth of sentiment in favour of the operation of public service franchises by municipalities has led to the citation of British experience as a means of judging probable results in American cities. Naturally enough, the advocates and opponents of municipalisation both discover arguments in favour of their views in the results shown in Great Britain. Recent articles by Mr. Holt Schooling in *Harper's Magazine* bring out the point that the amounts placed to depreciation and renewals accounts by British towns operating gas, water, electricity, tramway, etc., plants, are, on the average, trifling. This point has been made much of by opponents of municipal operation of public service franchises, and very properly so. There are, however, a good many things to be said in qualification of the statement that, judged by any reasonable business standard, the smallness of the depreciation funds implies that, in reality, the operations are being conducted at a loss. Among these may be named prominently the general inclusion in ordinary expenses of sinking fund charges on the loans which have provided the equipment. A further point of no small importance in individual cases is that the supply of gas for street lighting at charges less than would be paid to a gas company disguises the real financial advantage or burden of a city in respect of a municipal lighting plant.

Municipal Ownership.

Another mode of meeting the allegation that a business corporation would find it necessary to make far larger appropriations for depreciation and renewals than municipalities commonly make is to compare directly the practice of companies and municipalities. This has recently been done in the *Economist,* and with remarkable results. Comparing the tramway accounts for 1903-4 of four leading cities where the lines are publicly owned and operated with three cases where fairly large systems are run by companies, we find that Glasgow and Leeds, Liverpool and Manchester, examples of public ownership, compare very favourably with Bristol, Dublin and the London United Tramways, cases of private ownership by companies. The expenditure on general repairs and maintenance was a larger percentage on capital for each of the municipal plants than for any of the private plants, averaging over double as much. The companies assigned almost

From Another Point of View.

nothing to depreciation and repayment of capital in the year under consideration, the Bristol company charging a little over one per cent. to these accounts, the Dublin Company a good deal less than one per cent., and the London Company nothing. The municipalities, on the other hand, assigned amounts varying from a little over four to nearly twelve per cent. of capital expenditure to depreciation, renewals and repayment of capital. Thus the companies conspicuously neglect the very point on which is based unfavourable criticism of public management in comparison with the ideal of sound company management, while the cities have given this point a fair degree of attention. Other cities have fallen short of the standard set by the four largest, but the selection of company-managed systems having been determined by the track-mileage owned, the failure of the largest companies to attend to this important point offers no assurance that a necessary point of contrast between public and private ownership is found in the attention given by companies to charges neglected by municipalities. In spite of neglect of proper depreciation allowances, the companies paid dividends fully twice as great, reckoned as percentages on capital, as the amounts assigned by the cities to relief of taxation. The amounts thus paid out in dividends were reckoned on a capitalization per mile of line which, for the companies, exceeded in every case the largest of the municipal figures, and which rose, in the case of the London Company, to about three times the cost per mile of the municipality-owned systems. It seems to be clear that, whatever be the errors of municipalisation as practised in Great Britain, company ownership offers no certainty of relief from them.

And Another.

The same point is illustrated by the Electric Lighting Companies operating in London. The accounts of most of these are now available for 1904, and they show that, on a capital expenditure of nearly £10,000,000, the reserve, depreciation, etc., funds were assigned only about £207,000 in the year 1904, and £166,000 in 1903. These amounts are about 40 per cent. of what was paid in dividends on preference and ordinary stocks. If municipalities are in the habit of making inadequate provision for renewal of industrial plant owned and operated by them, the companies cannot be said to be unanimous in showing a more excellent way.

Commissioner Garfield's report on the so-called Beef Trust has disappointed those who believed that to publish the facts relating to such organisations would provide a weapon for attacking and destroying them. A profit of barely a dollar on each animal killed, even if increased to a dollar and a half by car mileage and other revenues not immediately derived from the killing and packing of beef, does not account for any large part of the price of the dressed beef produced, which exceeds 600 lbs. weight per animal. If the Commissioner's figures are to be taken as complete and accurate, we must look elsewhere than to exorbitant profits of packing companies to find the reason of the rise in beef prices. It is hard to believe that independent operators, with moderate-sized businesses, in competition with each other, would be driven to accept a remuneration less than a dollar per head of cattle handled. The investigation covered plants handling just over two millions of cattle yearly. At a dollar and a half per head, we have three million dollars of profit. The total capitalization of the companies is not given in the report, or has been cut out in preparing it for newspaper readers. The Swift Company, however, is mentioned as having 35 millions of stock and 5 millions in bonds. By the time the capital of the Armour and other companies covered is added to this, the three millions of profit will provide but a meagre dividend. Are the figures trustworthy?

Can Figures Lie.

It is somewhat startling to find a staff writer to the *Times* suggesting that the enormous gold reserves of the Russian Imperial Bank are "a colossal Humbert safe." No less strange is the resulting invitation to the *Times* to verify the reality of the store of treasure. One cannot be surprised that the task of inspecting the 450 millions of dollars worth of coin and bullion held, according to published accounts, by the bank, has been declined by the newspaper. That is a task not to be lightly undertaken. It is not easy to see what other reply could have been made by the Russian authorities to the suggestions of the *Times*. For those suggestions are serious in the highest degree. The argument offered in connection with them lacks convincing power. Yet one hesitates to believe that so eminent a newspaper would permit so serious an allegation to go forth in its name unless some

A Startling Suggestion.

cogent reasons exist for supposing it to represent actual fact. As matters stand, the world has to choose between trusting the officers of a great fiduciary institution and crediting the somewhat indefinite suggestions of a newspaper critic.

Russian versus Japanese Note Circulation.

Attention is directed to the status of the Imperial Bank of Russia for other reasons than that referred to above. In financing the war, the common recourse of governments, inflation of fiduciary paper circulation, was regarded as likely to be employed. In fact, the notes in circulation have increased, between the first week in February of 1904 and the corresponding date this year, by 156 million dollars, the total at the latter date being very nearly 460 million dollars. This increase by one-half in the year, after a period of very leisurely growth in the four preceding years, is significant. It is true that the gold reserve recorded has increased in the same interval by some 75 million dollars, reaching nearly 457 millions at the beginning of February last. Thus the increase of circulation, in excess of the increase of reserve, has been only some 80 million dollars. This is nearly four times the corresponding increase in the case of the Bank of Japan. The Japanese note-circulation has increased by less than one-fourth, while the Russian has increased one-half. The former, moreover, has, in the course of the year, fallen below the initial level, while the latter has manifested an almost continuous interest throughout the interval.

The Russian note-circulation reached its lowest level since the monetary reform at the beginning of the year 1900. It then stood at about 253 million dollars, with a gold reserve of 430 millions. Though the reserve has, since then, been a hundred millions less than this last figure, the contrast between the increase in circulation and that in reserve is not to be overlooked. As to possible further expansion of the circulation, the latest figures are the highest since the beginning of 1898. The data for 1896 show circulation in excess of 800 millions of dollars, and a gold reserve not much different, on the average, from that of 1904. The rate of exchange on London was substantially the same in the middle of 1896 as it is at the present time. This seems to suggest that a good deal of substitution of paper for gold in the Russian circulation might be

possible without risking depreciation of the exchange value of the rouble, unless the seven years' experience of a mixed currency of coin and notes has disinclined the people to employ notes as freely as formerly.

Currency Reform in Formosa.

The Japanese Government, in spite of the overwhelming importance of affairs connected with the war, has been devoting attention during the past year to the reform of the Formosan currency. The miscellaneous silver coins, in circulation in the island before the Japanese occupation, were demonetised as soon as the new government was established, Japanese silver coins and bank-notes being intended to take their place. In July. 1898, the unlimited circulation of silver one-yen pieces was authorized, but their gold value varied according to the fluctuations of exchange, and the current value was determined by official notification from time to time. The Bank of Formosa, which began business in September, 1899, has note-issuing privileges, its notes having at first been convertible into silver one-yen pieces. The increase of the note circulation, and the development of trade, prepared the way for a change, and on July 1st, 1904, the issue of notes convertible into gold was begun. The old notes are convertible into gold, or into the new gold-notes, at the current value of silver one-yen pieces, determined as stated above. Thus the gradual replacement of the silver-notes by gold-notes is anticipated. The production of gold in the island is estimated to be sufficient to ensure the maintenance of an adequate reserve of specie to support the new system.

A Question of Coal.

The Royal Commission which, for three years past, has been inquiring into the coal supplies of the United Kingdom, presented its final report in January. Though the detail of some part of the evidence on which the report is based is not yet issued, the conclusions and recommendations are before us, and these are what the public cares for more than the reasons which justify the report. The estimated quantity of coal remaining available is given as about 100,000 million tons. The annual output at the present time being about 230 million tons, the exhaustion of the supplies may

be regarded as not precisely imminent. Yet the shallower collieries are approaching exhaustion. Some districts seem likely not to be able to enlarge their output greatly in the future, and the Commissioners look for a slackening of the rate of increase of the annual output in the near future. Later, they forsee a period of stationary output, to be followed by a decline. Thus, though their large figure of unexhausted and available resources is a cheerful feature of the report, their investigators have done nothing to modify the opinion of previous careful students, that such industrial prosperity as depends on a rapidly growing production of coal cannot be permanent.

The strange feature of the estimate of resources is that it is greater by about one-tenth of itself than the corresponding estimate of the Commission which reported in 1871, and this in spite of the fact that there have been raised in the intervening years some 5,700 million tons, and that in working this a good deal of waste has occurred, so that it would not be an exaggeration to say that 7,000 million tons have been taken from available resources. The explanation of the apparent contradiction is that greater knowledge is possessed as to the existing coal deposits now than was available 35 years ago. Further, in coalfields not yet proved a supply of some 40,000 million tons is estimated to exist, and, in addition to this, some workable coal may be counted on at depths greater than the 4,000 feet within which the amounts previously named as estimated to lie. Before it becomes profitable to work coal at depths greater than this limit, the value of coal will need to rise substantially, that is to say, the supplies which can be cheaply worked will have shown marked signs of exhaustion.

Not less important than the extent of unworked resources is the question of economical use of existing resources, into which the Commission inquired with great care. It was given in evidence that the use of improved appliances and methods would enable the work actually done by the consumption of coal at the present time to be effected with a saving of from one-fourth to one-third of the amount used. Increasing cost of coal may thus not mean an equivalent increase in the cost of the work done by coal. Probably the economies will only be introduced as the rise in coal prices compels their adoption. On the important question of coal exports and the coal tax the report says that "there seems no present necessity to restrict artificially the export of coal in order to conserve it for our home

supply." The supplies of coal for the navy are not a great deal nearer exhaustion than those of the country at large. The estimated resources of first-class Welsh steam coal are nearly 4,000 million tons, while the present output is some 18 million tons. No measure for the conservation of these supplies for national purposes is recommended.

Japan's Big Bank.

The address of Governor Matsuo at the semi-annual meeting of the shareholders of the Bank of Japan is of such an interesting character that its publication in these pages ought to be pleasing to members of the Canadian Bankers' Association. The bank is a big institution, with capital and reserve fund amounting to 47,000,000 yen. Possibly the most interesting item to be found in the balance sheet, issued with the address, is a loan of 116,000,000 yen to the Government.

The modest reference by Governor Matsuo to the solidity of the people's resources and to their patriotic spirit is worthy of a nation upon which the eyes of the world are now fixed in admiration. Equally admirable is the quiet expression of the Japanese banker's belief that his country may continue to prosecute the struggle with Russia "without anxiety as to ways and means."

Too much praise cannot be lavished by the bankers of other countries upon their colleagues in the Orient. The Bank of Japan congratulates its shareholders that even during the prosecution of a titanic war the currency of the country has been kept on a firm foundation, and we also find in the address of the Governor of this great institution that owing to the navy of Japan having obtained command of the sea in the early period of the fighting, the people at home in wonderful Japan "remained undisturbed while the war was going on, pursuing diligently their productive enterprises."

A brave, industrious and modest people have been shewn to an admiring world in their true character by the great war now raging in Manchuria. Kipling may claim that in the country east of Suez

"There aint no ten commandments,"

but when the Governor of the Bank of Japan concludes his

address to the shareholders by expressing his belief that the whole nation, with ever united strength and fortitude, will continue "to develope a spirit of endurance," we feel assured that he has good grounds for his faith, and also that, without the "ten commandments," the affairs of his bank will be conducted wisely and well.

Advertising and Banking.

In another column of the JOURNAL will be found an extract from a recent number of "The Financier," the leading banking newspaper of New York. For reasons why certain banks do not increase in size, strength and importance, the writer of "Why Banks go Backward" gives illustrations which may apply elsewhere than in the United States, where the competition is of such strenuous fashion that no banker, it is said, can afford to neglect any opportunity of canvassing for business.

Banks Ancient and Modern.

Attention has been frequently called, of late, to the keen competition for deposits and business by banks and trust companies in the big cities of the United States, and much criticism of the modern methods of obtaining deposits is indulged in. Many of the advertisements setting forth the advantages to be derived from entrusting spare dollars to some particular bank actually rival the lurid posters of the circus proprietor, the interior of whose tents never contain all of the attractive features represented in rainbow colours on the outside of the canvas. Possibly, nonconformity with the modern way of doing business with the public may mean failure to acquire a fair share of deposits. Yet many bankers must regret that things are as they are. It may not be necessary to quarrel, in these times of strenuous competition, with the activity displayed by the banker of the period who believes in advertizing; but it is difficult to become accustomed or at least reconciled to having banking inducements set forth on a highly coloured card accompanied by an order for a quarter chest of tea or a flitch of bacon.

In conformity with a decree issued by President Diaz, gold is to be established as the unit of value in Mexico on May 1st. By making effective its new monetary system, the Republic of Mexico falls into line with the leading countries of the world. "The Financier" (N.Y.), referring to the adoption of the gold standard by Mexico, says:—

Mexico in Line.

"Provision is made for a theoretical gold dollar of about half the weight of the United States gold coin of that denomination; the free coinage of the silver peso will be suspended on April 16th; a new peso will thereafter be coined for domestic circulation, and the old Mexican dollar will, when it shall be imported, be received only at its bullion value of about fifty cents in terms of gold. The monetary law, which has been enacted by the Mexican congress, provides for a reserve fund of from 10 to 15 millions of dollars gold to be maintained for the purpose of preserving the parity of exchange between Mexico and other commercial nations. Through the provisions of this law there will thus be carried into execution the agreement made by Mexico as the result of the negotiations undertaken by the commission which was appointed by the United States Government two years ago with the object of securing uniformity in exchange between gold and silver using countries.

Two important features are embodied in this monetary law, one of which is the suspension of free coinage of the silver peso or dollar and the other is the establishment of the ratio of thirty-two of silver to one of gold through the reduction in the weight of the gold unit by one-half that of the United States unit. The Japanese Government was the first to effect reformation of its currency upon the basis of this ratio, at the same time suspending the free coinage of silver; the monetary system of the Philippine Islands was similarly organized, and, with the exception of China, which has no system, all Asiatic and Far Eastern countries now practically have the same ratio and exchange basis."

THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

THE PASSING OF THE UPPER CANADA AND COMMERCIAL BANKS.*

FEW passages in Canadian financial history are more instructive, if not altogether encouraging, than that connected with the failure, in the later sixties, of two of the three great Canadian banks of the first half of the nineteenth century. The Bank of Montreal, the Bank of Upper Canada, and the Commercial Bank had long divided between them the honours of the Canadian financial world, but the Bank of Montreal was the only one which survived the disastrous effects of overconfidence and inflation born of the speculative fevers of the fifties and sixties.

Before 1866 no Canadian bank of importance had failed. In contrast with the numerous failures in the United States, this fact became, with increasing pride, the boast of every Canadian who had occasion to speak of his country's banking institutions or financial history. In time the general self-complacency based on the superiority of the Canadian banks bred, first in the public and, by reflection, in the management of the banks themselves, a conviction that the larger banks were immune from the weaknesses and defects of ordinary human institutions. Even when this somnolent sense of security had led to the complete undermining of the most conspicuous of the banks, the boasting only grew the louder, there being a steady increase of the pride which goeth before a fall.

*Chief sources:—

First Report of the Financial and Departmental Commission, May 1st, 1863.

Report and Proceedings of Committee on Banking and Currency; Toronto, 1859.

Papers relative to the Transfer of the Provincial Accounts from the Bank of Upper Canada to the Bank of Montreal; 1864.

The Globe; Toronto, 1852-69.

The Leader; Toronto, 1860-68.

The Montreal Witness; Monthly Financial Review, *860-68.

The elevation of tone which characterized the Bank of Upper Canada while hastening to destruction, dated from 1850, when it became once more the Government Bank. The dangerous sense of superior importance was imparted to the Commercial Bank through its connection with some of the great railroad enterprises of the country. In the case of both banks, business transactions which would have been narrowly scrutinised where they involved merely hundreds or a few thousands, were passed without the unseemly disrespect of a close inquiry where they involved scores or hundreds of thousands. As the uncritical self-confidence of the Bank of Upper Canada was the more absolute, so its fall was the more disastrous and its ruin the more complete.

The atmosphere of political intrigue and favouritism in which the management and leading directors of the Bank of Upper Canada moved, had much to do with the departure of the bank from sound financial principles in the character of its investments and the granting of discounts. The opportunities for achieving riches by speedy and apparently certain methods, in railroad, produce and land speculations on a large scale, were quite new to Canada. For several years after 1850 everyone who ventured seemed to win, the conditions being such as to deceive even the elect. Small business came to be despised by the larger banks, and espcially by the Bank of Upper Canada—the Government agent and the centre of those who had acquired the Midas touch. Loans of $100,000 to individuals, and of $500,000 to railroads were the order of the day, and appeared to be amply justified, for was not the bank doing a wonderful business and making enormous profits, paying in one year, between dividend and bonus, as high as twenty per cent? The branch managers naturally followed the pace set by the directors, several of them taking a hand in the universal speculation and, directly or indirectly, using the funds of the bank to back their ventures. Only when the inevitable reaction was well under way did the rash adventures of the period appear to their victims in their true light.

When, in 1850, the Government accounts were transferred to the Bank of Upper Canada exclusively, the bank was to receive payments for the Government throughout the country, and to pay the Government cheques at its several agencies. It was to furnish the Government with exchange on London at the

most favourable rates afforded to the public, and to provide it with accommodation in advance, to the extent of fifty thousand pounds, at the usual rate of six per cent. per annum.

For a time the Government made considerable use of the privilege of obtaining advances from the bank, particularly in securing exchanges to meet payments of interest on Government securities held in London. But during the period of unusual prosperity which shortly followed this agreement, the Government, instead of requiring accommodation from the bank, found itself in possession of increasing surpluses. In 1854 Mr. Ridout, manager of the bank, stated that the average weekly balance of the Government in the hands of the bank during the previous year amounted to £182,381, and from April to October, 1854, it amounted to £210,056.

The question as to the wisdom or necessity of depositing all the public money in one bank was raised in the Assembly by Messrs Holton and Galt, who moved, "That it is inexpedient to continue the present system of depositing all public money, as received, in one bank." Mr. Holton, in support of his motion, said that Boards of Trade in general were opposed to the system. The larger imports of the year taking place in the early summer, led to the payment of duties on a large scale at that time of the year, with the result that the gold and general funds of the other banks were largely transferred to the Bank of Upper Canada. He pointed out that on April 12th of that year the Bank of Upper Canada had on hand, not bearing interest, £111,000. In June the amount had increased to £462,000, and in July to £492,000. Such a tying up of funds operated to the disadvantage of the business of the country, while it represented an extensive loss of interest to the Government and an unnecessary risk in having all the public funds in one bank. Mr. Cayley, then Minister of Finance and a special friend of the Bank of Upper Canada, attempted to defend the system on the double ground of the bargain of the Government with the bank, and the necessity for the bank being in a position to meet sudden and large demands upon it by the Government. However, a committee was appointed to inquire into the question of the deposit of public moneys.

In November, 1854, Mr. Cayley explained the future policy of the Government with reference to the banks. To meet the complaints regarding a monopoly of the Customs duties by one

bank at special seasons of the year, it was proposed to give instructions to the Custom House officers to receive, in payment of duties, bank certificates of deposit bearing three per cent. interest, at thirty and sixty days. This would also meet the other objection that the Government had large funds in the Bank of Upper Canada not bearing interest. It was proposed also to place the Government balance at the disposal of the banks at three per cent. interest, on condition of their depositing with the Government municipal debentures, connected with the Municipal Loan Fund, to the extent of the loan received, the funds to be withdrawn at six, nine, or twelve months' notice, as arranged. These proposals, however, do not appear to have been acted upon to any great extent, and certainly did not prevent increasing sums of public money from being left on deposit with the Bank of Upper Canada.

Simultaneously with these unusual accumulations came the first great railroad development of the Province, stimulated by liberal government grants, and the expansion of municipal expenditure and indebtedness under the encouragement of the Municipal Loan Fund. The Bank of Upper Canada, as the Government Bank, and with entirely unwonted quantities of cash on hand, was no longer content with the old lines of modest and varied traders' discounts. It blossomed out into a new field of high finance, supplying thousands by the score to railway magnates and municipal councils. The Government evidently encouraged the bank in extensively assisting the railroads. Before long the bank had advanced on railway securities as much as three hundred and fifty thousand pounds.

The bank also furnished considerable sums to parties engaged in land speculation and certain large milling enterprises, both of them generated by the very unusual prices obtained for wheat and flour during the period of the Crimean war.

As time passed, the arrangement which Mr. Hincks had made with the Bank of Upper Canada became completely reversed. Instead of the bank assisting the Government to tide over periods of shortness of funds, the Government gradually found itself to a larger and larger extent carrying the bank. When the speculative reaction set in and the stringency of 1857 began to develop, the bank gradually realized that some of its most extensive customers were not able to meet their engage-

ments, that in fact the bank had either to support them or precipitate a crisis disastrous to itself. The bank being unable to obtain a return of its advances from its larger customers, the Government was unable to command its balance in the hands of the bank. The crisis of 1857-8 first plainly revealed to the bank and the Government where they stood with reference to each other, although the full extent of the bank's losses was not realized for some years. To have applied pressure in any particular quarter at the time of the crisis would simply have precipitated bankruptcy and general panic. Thus, while more or less conscious of their mistakes, the Government and the bank simply suspended action, hoping for a favourable turn of trade and the ultimate recovery by the bank of a command of its funds.

In the course of several three-cornered dealings between the Government, the Grand Trunk Railway and the Bank of Upper Canada, certain obligations were created, the ultimate responsibility for which came to be protracted matters of dispute between the parties. The chief item of this kind was a bill of exchange on London for £100,000 sterling, or $486,666, which was drawn by the Grand Trunk Railway, of which Hon. John Ross was then president, in favour of the president of the Bank of Upper Canada, and which was sold to the Canadian Government in June, 1859. It was thought that this was simply a device to enable the Government to lend temporary assistance to the Bank of Upper Canada. However, the bill was not paid by the Grand Trunk, nor were others which took its place, until, at the end of three years, the last bill in the series was finally dishonoured. The Government held that the bank was responsible for the amount, which the bank denied.

Another disputed claim was that for £61,990, which the bank held the Government ought to meet, since, in 1857, at the request of the Receiver-General, Hon. J. C. Morrison, the Bank of Upper Canada had transferred to the credit of the Province that sum, which the Government had advanced on deposit to the Zimmerman Bank. In return the Bank of Upper Canada had taken over certain lands and other securities belonging to the Zimmerman estate, but which were not likely to cover this debt. Hence the bank wished the Government to be responsible for any loss connected with the affair. The details of

these transactions are somewhat involved, but they display, as in many other cases, a remarkable laxity in the administration of the Government's finances.

After Mr. Galt became Finance Minister in 1858, he apparently made some verbal arrangement with the bank to maintain a certain balance in its hands. Mr. Cayley, who preceded Mr. Galt as Finance Minister, was, in 1860, officially connected with the Bank of Upper Canada, and claimed that there was an arrangement with the Government that a minimum balance of $600,000 should be maintained with the bank. This Mr. Galt denied, saying that the proposed arrangement had not been accepted by the Government. At the same time, Mr. Galt afterwards admitted, before the Financial Commission of 1863, that, with reference to the Bank of Upper Canada, "the unfortunate position in which that institution stood, rendered it for nearly the first three years after my acceptance of office, dependent upon the course adopted towards it by the Government." A letter from Galt to Ridout, the manager of the bank, in February, 1861, shows that the Minister of Finance was quite concerned at the position into which the bank had drifted. He notes that the bank is now suffering from the withdrawal of public confidence, its weakened position being reflected in the returns. The position of the Provincial account has also caused embarrassment to the Government, as it is unable to draw upon the large balance in its favour. The time has come, therefore, when the Government must obtain a full explanation of the position of the bank, in order that it may judge of its future policy with reference to it. From the evidence which was furnished by the bank, Mr. Galt came to the conclusion that it might yet be saved. But this would require a reorganization of its management. To permit of this it was necessary that the Government should not attempt to withdraw its balance at that time. It did insist, however, on a change in the management of the bank. Thus we find that in 1861 Mr. Thomas Ridout ceased to be manager of the Bank of Upper Canada, and Mr. Robert Cassels, of the Quebec branch of the Bank of British North America, took his place. Mr. Cassels certainly did all that was possible, under the circumstances, to save the institution from bankruptcy, but the task proved to have been an impossible one from the beginning. On the basis

of information furnished by the bank, Mr. Cassels maintained that there had been a definite arrangement, though not reduced to a formal agreement, that the Government balance in the hands of the bank should not be less than from $800,000 to $1,000,000. Even so, Mr. Cassels found himself forced to apply to Mr. Galt for additional Government assistance to help the institution out, as it was then in a very precarious condition, being in discredit both at New York and London. The Finance Minister came to the rescue of the bank, in order, as he said, to "re-establish its credit and relieve the Government and the country from anxiety and alarm." The assistance asked for was an increase, on the amount deposited by the Government, of at least £120,000 stg., and an additional credit in London of £80,000 stg., in order to enable the bank to continue to perform the function of fiscal agent of the Government. At the time of this request the balance in the bank at the credit of the Government was $1,176,925. In his letter to Mr. Cassels, Mr. Galt said that the Government would consider the application favourably, on the bank's showing that there was security for the advance, and in the meantime the Government balance with the bank would not be reduced below $1,200,000.

In May, 1862, the Coalition Government, under Cartier and Macdonald, was defeated, and the Reformers came into power. Mr. Cassels wrote to Mr. Morris, the new Receiver-General, that the understanding between the late Government and the bank was that the current balance at the credit of the Government should be maintained at about $1,200,000, and urging him not to reduce the amount below that sum. If, however, they should find it absolutely necessary to reduce the balance, it should be drawn out very gradually and in the ordinary course of payment. No change in the relations of the Government and the bank appears to have taken place till the latter part of 1863, when the Government entered upon new arrangements as to its fiscal agent.

Having thrown some light upon the relations of the bank and the Government down to 1863, though at the time these facts were carefully maintained as state secrets, we must now go back to trace the outward movements of the bank as it faced the general public. Knowing, however, what was going on behind the scenes, the record will be the more interesting.

As already indicated, the Bank of Upper Canada was to a greater extent than most of the other banks connected with the extensive speculation in land carried on throughout western Canada, now western Ontario. In the latest forms of their charters, the banks were permitted to hold land as collateral security for their discounts. As was pointed out by the officials of the British Treasury, these amended charters gave to the Canadian banks the opportunity to lend money on what was in the end nothing else than security on land. The Canadian authorities, however, declined to take the warning, and for once the British critics were justified in their prediction as to the consequences. The Bank of Upper Canada in particular advanced large sums on what was virtually land security. Hence, when the boom collapsed, they found themselves with great quantities of wild lands on their hands for which they could find little or no sale. The funds of the Bank were thus tied up, its proper function as a bank was paralyzed, and in the end it lost the greater part of its advances.

In the report of the Special Commitee of the Legislature on banking and currency, in 1859, the evidence of the management of the Bank of Upper Canada refers in particular to excessive speculation in land, and the many projects for new villages and towns which were being started all over the country, causing bank accommodation to be extended to its utmost limits. The bank also dwells with a certain fullness of knowledge, of which, however, it is not at all boastful, on the effects of the large expenditures on railways and public works, between 1852 and 1856, which, however, had dwindled away in 1857, and ceased almost entirely in 1858. As to possible remedies, it held that nothing was open to the Legislature beyond insuring a sound banking system and a sound currency. One can fancy that, however, sedative this advice might be for the general public, it could hardly convey much light or leading to a Government which was just then endeavouring to discover whether its treasury department controlled the bank or the bank controlled the Treasury.

As already pointed out in another connection, the crisis of 1857-8 was very considerably aggravated from the fact that, though the country had a fair crop, it could not be brought to market for lack of banking accommodation. Gradually some

suspicion of the paralysis which had overtaken the Bank of Upper Canada began to get abroad. Though the general desire for self-protection induced the larger banks and the Government, and through them the newspapers, to either deny or at least minimize the seriousness of its position, yet it was evident that in some way the crisis of 1857-8 had left the Bank of Upper Canada in a more critical condition than several of the other banks, which were showing signs of having safely weathered the storm.

The annual report of the Bank of Upper Canada in June, 1859, did not give the public much light on the situation. It made no reference to the relations of the bank to the Government and the Grand Trunk, but stated that many of the customers of the bank were "connected with agriculture and the milling interests," and found some difficulty in meeting their engagements promptly, nor was there much prospect of improvement so long as the depression continued. "Connected with agriculture" is, of course, a euphemism for land and grain speculations, and had no reference to ordinary farming. The report does state, however, that the amount of $220,000 set apart in June, 1858, to cover bad debts, is now supplemented by a further devotion of $400,000 to the same purpose, the reserve account being still credited with $156,393.

The leading papers of Western Canada at least still supported the Bank of Upper Canada, maintaining that, notwithstanding the losses which, along with the other banks, it had lately sustained, it was still a sound institution. In the light of subsequent revelations, however, it was evident that Mr. Galt, in attempting to reconstruct the Canadian system of banking, had the Bank of Upper Canada more particularly in view when he urged, as the chief reason in favour of his plan for a Government Bank of Issue, the latent danger and general lack of security for the public which characterized the existing system of banking.

While Mr. Galt's plan for a bank of issue was under discussion, several vague charges against the management and security of the Bank of Upper Canada had been made in some of the eastern papers, and had given rise to feelings of uneasiness among stockholders who had never before taken a practical interest in the management of the bank. In consequence,

much interest was manifested in the annual meeting of June, 1860, and the attendance of stockholders was unusually large.

No doubt it is poor policy for a bank in distress, so long as there is any reasonable hope of recovery, to encourage the apprehensions of the public as to its soundness. The Hon. William Proudfoot, president of the Bank of Upper Canada, certainly endeavoured to make the best of the situation before him. He referred to the general recovery of the country from the recent depression in trade and the bright prospects for the future. The bank, he represented, as having suffered no additional losses during the past year. This was, no doubt, fairly correct in the sense that the steadily declining value of assets was due to investments and speculations made in previous years. But whatever comfort might be gathered from the adroit wording of his report, the unpleasant fact had to be faced that the $400,000 voted the previous year to cover losses had not only been swallowed up, but a further sum of $294,000 was required to meet additional losses, and it was vaguely admitted that others might result when things came to be fully straightened out. The shareholders were reassured, however, with the promise of two half-yearly dividends of three per cent., the surplus earnings to be devoted to the profit and loss account. The president also explained that, on the one hand, it was still necessary to extend forbearance to parties indebted to the bank, while, on the other, it was impossible to dispose of the real estate, in which part of the funds of the institution were at the time locked up. An official report of the affairs of the bank to date was submitted to the stockholders, which, on paper at least, proved beyond question that the institution was in a perfectly sound position.

Mr. George Munro, in moving the adoption of the report, sought to create a diversion and to remove the apprehensions of the shareholders by entertaining them with a reminiscent sketch of the earlier and happier days of the bank and of past difficulties triumphantly overcome. These smooth and reasonable statements from the management of the bank would doubtless have satisfied the great majority of the shareholders, but there are apt to be unreasonable individuals in every company, and even the Bank of Upper Canada was not without its troublers. The particular thorn in the side of the institution

at this time appeared in the shape of a Mr. J. H. Hopkins, who had been agent of the bank in Lindsay, and who, for one reason or another, had been giving the public the benefit of his knowledge of the affairs of the bank. The President affected to make light of Mr. Hopkins' newspaper charges, attributing them entirely to personal animus on account of his having been dismissed from his position, owing, it was claimed, to some irregularities in his accounts. But, whatever may have been the motives of Mr. Hopkins, or however inaccurate his knowledge as to the details of the bank's embarrassment, his revelations and charges were more than sustained in the course of events.

In April, preceding the annual meeting of 1860, Mr. Hopkins had presented a petition to the Legislature calling for a complete examination of the affairs of the Bank of Upper Canada. But since it would have been quite as awkward for the Government as for the bank to have undertaken such an investigation, his petition was entirely ignored. Mr. Hopkins, being apparently a shareholder of the bank, was present at the annual meeting, and somewhat disturbed the harmony of the proceedings by insisting upon making an explanation in defence of his charges. He went to the root of the question at once by proclaiming that the bank had forfeited its charter, because it did not possess the necessary public securities to the extent of one-tenth of its capital. The President tried to meet this charge by declaring that such was not a matter for the consideration of the shareholders but only for the Government. Mr. Hopkins further claimed that their specie on hand was much below the safety limit, and pointed out that in their report they had lumped together bills, notes discounted and other debts due to the bank, all taken at their full face value, to form aggregate assets of $8,396,644, which, he maintained, they knew very well could never be realized. Several ineffectual efforts were made to check this flow of damaging statements, when Mr. J. H. Cameron adroitly came to the rescue, and by roundly charging Hopkins with various misdemeanors, succeeded in putting him upon his own defence, thus saving the situation.

Mr. Cayley, lately Finance Minister, and under whose administration the bank had so successfully encroached upon the

Government, in an effort to reassure stockholders, pointed out that an institution in which the Government had so great confidence, as marked by the large deposits which it still entrusted to the bank, could not possibly be in an unsound condition. The bank, as he represented it, was simply temporarily embarrassed, owing chiefly to advances in aid of land purchases, resulting for the time being in the possession of considerable land and overdue mortgages, on which unfortunately no interest was just at present being received.

Some uneasy shareholders ventured to suspect that the management of the bank might have been more or less defective. Otherwise, why in the face of common trials, should the stock of the chief bank in the country, enjoying the advantages of the Government account, be dull on the market at 83, when that of other banks were selling at 112 and 113? In the efforts to meet this and other interrogatives, it incidentally leaked out that the chief losses of the bank were connected with large single accounts. There was one concern in St. Catharines, connected apparently with the milling industry, to which the bank had advanced as much as $200,000, one-half of which at least was admitted to be lost. One of the officers of the bank had been indebted to it for $120,000, for which the bank had taken over some property not yet disposed of. "It was the millers who had got into the bank so strongly," admitted one of the directors in a burst of confidence. Thus, though the meeting had opened with a brave front on the part of the management, it ended by leaving an uncomfortable feeling of uncertainty, due to the consciousness that the few unpleasant facts which had come to the surface were merely samples of many others still concealed. The result of this annual meeting was, therefore, by no means reassuring.

The newspapers of Toronto still stood by their bank. The *Leader,* after demolishing Hopkins, who had occasioned the revelations, professed to believe that the discussion at the annual meeting had cleared the atmosphere and enabled the public to understand where the bank stood, which it admits had never been understood before.

At the close of its defence of the bank, the paper took occasion to offer, for the benefit of other banks, the suggestion that heavy loans to individuals were a mistake; forty to eighty

thousand dollars to individual concerns should constitute an outside limit. A few months later the same paper, in an interesting editorial, returned to a defence of the bank against attacks made upon it by some Montreal papers. Their inspiration is supposed to come from the Bank of Montreal, which, like one or two of the other banks, was said to be jealous of the advantage which the Bank of Upper Canada enjoyed in holding the Government account. One of the points adversely commented upon was the unusual amount of notes which the Bank of Upper Canada had in circulation. The people, said the *Leader*, are accustomed to regard the notes of the Bank of Upper Canada as an ultimate form of value, and to store them away as the safest form of savings. Not troubling themselves to inquire closely into the affairs of the Government Bank, the falling off in its dividends and the price of its stock does not alarm them. In some way the *Leader* seems to regard this as conclusive proof of the soundness of the Bank of Upper Canada. As a mere statement of fact, the paper was undoubtedly accurate in its explanation. The general conviction of the people, together with the Government support, certainly accounted for the slowness with which the general public came to recognize the hopeless position of the bank. Instead of experiencing a sudden collapse through the development of a panic and a run upon it, the bank really lost its customers one by one as they gradually became convinced of its inability to recover. The note circulation was the last, not the first form of bank credit to lose the public confidence. Thus the Bank of Upper Canada may be said to have experienced the quite unusual fate among banks, of passing away by a lingering decline, and as it went through several stages of winding up it became impossible to say just when it expired. If recovery had been at all possible, after its first great blunders, certainly no bank ever enjoyed a more extended opportunity of rehabilitating itself.

Late in 1860 representatives of the leading banks met in conference in Toronto, evidently under the influence of the Government, and an agreement was declared to have been entered into whereby the banks, abandoning their previous

destructive rivalry, should mutually assist each other with a view to strengthening the financial resources of the country. As was expected, the Bank of Upper Canada chiefly benefitted by this movement, and appeared to have arrested for a time the growing lack of confidence which had been manifested since the annual meeting in June. Later on, disquieting rumours revived with reference to the relations of the bank with the Grand Trunk Railway, and the inadequacy of the security held for very extensive advances made to that railroad. The public were assured, however, that the bank had ample security in the shape of a mortgage upon the rolling stock of the company on its lines in New Hampshire, Vermont and Maine.

It was in March, 1861, that Mr. Cassels succeeded Mr. Ridout as manager of the Bank of Upper Canada. The new manager undertook a complete survey of the affairs of the bank, and evidently found matters in a much worse condition than had been expected. The next annual meeting in June, 1861, was naturally looked forward to with considerable anxiety on the part of many and with much interest on the part of all. In presenting his first report, Mr. Cassels adopted a very frank attitude, as compared with the policy of the previous management. In his opening remarks, he referred to the severe depression of previous years, as doubtless preparing the stockholders for a rather unfavourable report, and if so they would not be disappointed. He stated that, notwithstanding the large sums already appropriated to meet losses, a still larger sum was yet required. After writing off more than half a million of bad debts, up to date, a careful survey of the bank's accounts showed that there was still to be met a large number of debts regarded as hopelessly lost, amounting in the aggregate to $758,808. Then there were estimates of partial losses on other outstanding debts, amounting to $659,990. The amounts lost at the various branches are given. The chief losses occurred at the following places:—

Branches	Total Losses	Estimated Losses on Other Accounts.
Head Office	$524,954	$245,880
Quebec	99,841	17,580
Chatham..	35,025	95,900
Hamilton	28,273	15,100
Brantford	15,482	
London	13,645	60,000

Port Hope	10,511	4,640
Brockville	1,468	67,000
Kingston	3,561	2,170
St. Catharines		84,420
Clifton	637	50,500

The total of the losses still to be met amounted to $1,418,798.51, less the amount available from the profit and loss account, $168,290.99, leaving to be provided for $1,250,507.52.

Several explanations were made with reference to special accounts not connected with the above. The Morton debt at Kingston was reported as reduced to $200,000, which was regarded as covered by collateral security. The Zimmerman debt proper amounted to $340,000, considered to be secured. There was, however, the other sum of $256,000 due by the Zimmerman Bank, for which the Government was considered responsible, as already explained. The balance due by the Grand Trunk amounted to $883,000, which was secured by an attachment obtained against the property of the company in the State of Maine, and supposed to be worth nearly the amount of the debt. This Grand Trunk debt was a balance on transactions extending over a number of years, and amounting in the aggregate to several millions of pounds.

The subscribed capital of the bank amounted to $3,186,100, and Mr. Cassels proposed, as the only means of meeting the large losses just acknowledged, to reduce the capital stock by the amount to be provided for. This could be effected by an Act of the Legislature reducing the value of each share of $50 to $30. This would place at the disposal of the Board $1,274,440, and still leave the capital of the bank a little less than $2,000,000. This would prove that the bank was still solvent, and should silence the adverse criticism which had recently developed. At the same time authority was to be obtained to issue preference shares to the present stockholders, the limit of actual capital remaining as at present, $4,000,000. It was also proposed to call in all the old issues of the bank and substitute new notes, and it was expected that a very considerable sum would be realized through the notes lost and destroyed, for which only $40,000 had been written off so far.

Having made what he considered, and at the time doubtless quite honestly considered, to be a complete allowance for

the losses of the bank, Mr. Cassels naturally made the best of what remained, and of the prospects for the future. He refers, of course, to the continued confidence in the bank shown by the Minister of Finance and the other members of the Government. It is believed that if the bank gets its balance from the Grand Trunk and realizes upon its mortgages, debentures, etc., it will once more be in a prosperous condition. Accepting his "ifs" at par value, he was probably correct.

The stockholders approved of the proposals of the management. An Act was passed reducing the capital of the bank and providing for the issue of preference shares. The public apprehension with reference to the bank was considerably relieved by Mr. Cassels' frank statement, which discredited most of the wilder rumours in circulation. Yet the preference stock went off but slowly, and the decline in the business and status of the bank continued, emphasized by the general recovery of the other banks. At the close of 1861 the various bank stocks stood at the following prices on the Montreal Stock Exchange:

Montreal	116	Ontario	102½
Commercial	105	Molson's	114
City	105	Toronto	107
People's	109	Upper Canada	47

During 1862 nothing connected with the bank calls for special comment.

At the annual meeting in 1863 Mr. Cassels stated that the bank was able to pay a dividend of six per cent. on the paid-up preference capital and still have a balance of $59,784, which, as he said, would have been much greater had the Grand Trunk paid interest on its debt to the bank. The claims against the Government in connection with the Zimmerman Bank and the Grand Trunk exchange for £100,000 were not yet settled. The old notes were being withdrawn, but there were still notes to the extent of $219,720 outstanding. The branches at Chatham and Stratford had been closed. During the past two years $1,151,000 of the new preference stock had been subscribed, and they still hoped to dispose of the remainder. In conclusion, he claimed that the bank had steadily improved during the year.

As yet the public knew little or nothing of the peculiar relations between the bank and the Government, and which we

have already traced down to 1863. The large Government deposit in the hands of the bank was invariably referred to as evidence of the perfect confidence of the Government in general, and of the Minister of Finance in particular, in the essential soundness of the institution. But, as we already know, the appearance of so large a Government deposit on the balance sheets of the bank was certainly not due, either to special confidence in the bank, or to the overflowing condition of the Provincial Treasury. It was due to mere helplessness on the part of both the bank and the Government. The bank was living, indeed, on the reputation of its debts. Had the Government attempted to withdraw its balance, it would simply have closed the bank. Moreover the necessary explanations to follow would inevitably have driven the Ministry from office. Thus the Government, while sorely needing the funds for its ordinary purposes, was forced to seek accommodation on the London money market, not only to meet its own ends but to extend additional aid to the Bank of Upper Canada.

When, however, in 1862, the Coalition Government, driven to extremity on every hand, adroitly chose to go out of office with a certain halo of imperial glory, in apparent devotion to the Mother Country, on the Militia Bill, the Bank of Upper Canada was left to its fate at the hands of the new Ministry.

As soon as the new Government had obtained its bearings, one of the most important matters to be attended to was the clearing of that Augean stable, the Finance Department of the late Government. A commission of inquiry was appointed, from whose extensive and detailed reports, covering a wide range of investigation, we have culled the particulars already given with reference to the relations of the Government to the Bank of Upper Canada.

From the time that these revelations were made public, the fate of the Bank of Upper Canada was sealed. The finances of the Government being left in a hopeless tangle, it was impossible for the new Ministry to continue its relations with such a water-logged institution as the Bank of Upper Canada. Mr. Cassels, in his efforts to save the bank, endeavoured to persuade Mr. Holton, the new Finance Minister, that it could still serve the Government if treated with moderate indulgence. On November 7th, 1863, Mr. Holton, in reply to a communication

from Mr. Cassels to that effect, reminds him that he must be aware of the inconvenience to which the Government is exposed owing to the inability of the Bank of Upper Canada to meet drafts upon the large balance of Government deposits, or otherwise to perform the regular functions of a fiscal agent of the Province. It is very undesirable that the Province should have to seek further loans in England before an annual revenue shall be provided equal to the necessary annual expenditure. He has sought to raise sufficient money in the country to meet the engagements of the Government for the next six months, but it was not until he had made arrangements in other quarters that he (Mr. Cassels) had professed to be able to furnish the assistance through the Bank of Upper Canada towards raising a new loan. Now the only necessity for raising a new loan was the inability of the Bank of Upper Canada to pay the Government the balance held by it. In saying this, he is merely repeating what he has often stated verbally, as also that the action which he has been compelled to take is purely in the interests of the public and without prejudice towards the bank. As to the existing balance in the hands of the bank, he is prepared to show such accommodation as is consistent with the public interest.

The "other arrangements" which Holton had made referred to the decision of the Ministry to transfer the Government account to the Bank of Montreal, which could most easily afford the necessary accommodation. The transfer was to be made on January 1st, 1864.

After various verbal negotiations, the Bank of Upper Canada proposed the following arrangement for a settlement with the Government. The bank gives up its claim against the Government for the Grand Trunk sterling exchange of £100,000, and also the Zimmerman Bank claim. The more recent special deposit to assist the bank, amounting to $220,000, will be paid in two equal sums on the 11th of June and December, 1864. The balance of $1,286,666 to remain at the credit of the Government, without interest, until July 1st, 1864, and at three per cent. for three years from that date; at four per cent. for the next two years, and at five per cent. after July 1st, 1869. The debt is to be gradually paid off in instalments of $50,000 half-yearly, the first to become due and payable on July

1st, 1865. Holton accepted these terms as a matter of expediency and with a view to avoid unnecessary embarrassment to the bank and possible injury to the public.

A somewhat similar arrangement was made with Glyn & Co., the English agents of the bank and of the Government. Their amount was to remain as a permanent deposit in the bank. About the same time the account of the Grand Trunk Railway was transferred to the Bank of Montreal.

For a short time after this settlement the bank managed to live up to its terms, and by the middle of 1865 had reduced its Government debt to $1,200,000. The bank, however, was virtually living on suffrance. The circulation was declining, its active business was gone and its chief function was to realize as far as possible upon its mass of overdue paper.

After making one more payment of $50,000, at the close of 1865, the bank found it impossible to keep up its engagements. Its friends being once more in power, it applied to the Government for relief, and obtained an advance of $100,000, on the basis of certain securities deposited with the Treasury. On July 1st, 1866, its obligation to the Government on the old account stood at $1,150,000, and under the new account at $133,441.

It was found that, notwithstanding the enormous losses provided for under Mr. Cassels' reconstruction, the end had not been reached. An ever increasing amount of securities held by the bank and counted as good turned out to be worthless or shrank in value. In consequence, increasing quantities of wild lands and other real estate, greatly depreciated through the ruin of its owners were falling into the hands of the bank, and could not be disposed of. Indeed, the experience of the Bank of Upper Canada constituted a prolonged justification of that principle of all sound banking that real estate is no proper basis for bank accommodation.

During 1866 things grew steadily worse. It was a question from day to day whether the bank would be able to meet its daily balance. Finally in September the Bank of Montreal refused to accept its notes on deposit, and the Bank of Upper Canada collapsed. So gradually had the institution gone down to bankruptcy that when it finally ceased payment there was scarcely a ripple of excitement. There was little perceptible

difference between the last stages of its nominal existence as a bank and its first stages as a bankrupt estate.

After its formal failure the affairs of the bank passed into the hands of trustees, who continued the process of winding up the estate through long drawn out efforts to realize on the miscellaneous mass of real estate and overdue paper which constituted the assets of the concern, and which still indicated, in 1866, that the bank had a normal surplus of assets over liabilities of nearly $2,000,000. The subsequent stages of its liquidation are of comparatively little interest to the history of banking.

What has been said in a general way with reference to the effect upon the Bank of Upper Canada of the wave of optimistic speculation which swept over Canada in the fifties will apply with some modification to the experience of the Commercial Bank.

In most respects the Commercial Bank had acquired a wider connection with the regular mercantile business of Western Canada than the Bank of Upper Canada, and it was but very slightly involved in the wild land and other real estate speculations which so greatly affected the latter bank. The fact that the head office of the Commercial Bank was located at Kingston, whose commercial importance had relatively declined, was regarded by some as likely to prevent the bank from keeping in touch with the more important commercial and financial developments of the country. This remoteness, however, from the scene of political and speculative intrigue proved to some extent the safety of the bank. The management, if not so intimate with the latest projects for Provincial development, were for a time at least able to take a more sober view of the situation. To be the financial centre of great and glorious enterprises "their lot forbade; nor circumscribed alone their growing virtues, but their crimes confined." In time, however, the bank found an entrance to the larger field.

Up to 1857 the Bank of Upper Canada held the accounts of the two largest Canadian railways, the Grand Trunk and the Great Western. Owing, apparently, to the financial troubles of that year and the growing rivalry between these two great railway systems, the Great Western transferred its account to the Commercial Bank, which gladly welcomed so large and pro-

mising a customer. Incidentally, the Commercial Bank paid over to the Bank of Upper Canada between $300,000 and $400,000. As a further consequence of the rivalry of the two Canadian roads for the American traffic at Detroit, the Great Western found it necessary to obtain control of the Detroit and Milwaukee Railway. Mr. Reynolds, the financial agent of the Great Western Railway, wished the Commercial Bank to advance considerable sums for the accommodation of the Detroit and Milwaukee Road. This, however, the manager refused to do on the credit of that road alone. He offered to open a special account for the Great Western Railway for the use of the other banks of the Province; it had suffered considerable losses through the crisis of 1857-8. However, unlike the Bank of Upper Canada, it seemed to revive with returning prosperity, and the price of its stock and the character of its official returns indicated that it was in as sound a position as any of the other banks. But, after the revelations made in 1863-4 with reference to the dealings of the Bank of Upper Canada and the railroads, public confidence in the Commercial Bank appeared to be somewhat shaken. Nor were matters really bettered by the settlement with the Great Western Railway. Finally, a compromise was arranged and an account was opened under the heading of the Great Western, Detroit and Milwaukee Railroad. This itself was a very uncertain basis for business, and there was still further looseness in the drawing of cheques and in the general financial arrangements between the bank and the railway. The advances of the bank on this account ran up to $742,270 in 1859, when the bank called a halt, and then discovered that its security was of a very uncertain nature. The Great Western railway repudiated all responsibility for the advances made to the Detroit and Milwaukee, which they declared to be no part of the Great Western, and in consequence declined to be bound by any agreements which Mr. Reynolds had made, and which they had not authorized.

In 1862, after fruitless efforts to arrange the matter, a suit was entered by the bank against the Great Western Railway, the claim amounting to over a million dollars. When the final crisis made public the condition of the bank, it was found that the total obligations of the railroad to the bank amounted to

$180,000, or nearly half of its total capital. The case dragged along through the Courts with varying success, mostly in favour of the bank, but at enormous expense to both parties. Finally, in 1866, it was arranged at the annual meeting of the Commercial Bank that the matter had been arranged in such a manner as to secure the ultimate payment of the bank's claims. As a matter of fact, the bank had accepted Detroit and Milwaukee bonds to the extent of its claims.

As regards the other business of the bank, little could be learned from its annual reports, except that, in common with tieing up of a very large section of the bank's capital.

To meet these difficulties, the bank resolved to follow the example of the Bank of Upper Canada. At the annual meeting in June, 1867, it was proposed to reduce the capital stock by twenty-five per cent. A board of auditors was appointed to investigate the affairs of the bank and publish a report on its condition. The report, while favourable to the bank, was not as explicit as it should have been, and did not restore confidence.

Hitherto the difficulties of the Canadian banks had always been more or less conspicuous, and even dramatic. They were evidenced through a run upon the bank by its noteholders. The character of Canadian banking, however, had greatly changed. Not the noteholder, but the depositor, was now the chief creditor of the bank. But the depositor who became uneasy simply transferred his account to another bank, by issuing a cheque for his balance. In this way the funds of a bank might be drawn out in blocks of thousands, and the general public be not a whit the wiser. Such was the drain experienced by the Commercial Bank. As was shown after its suspension, the bank was to quite an unusual extent the custodian of trustee funds, alike for individuals and corporations. Naturally, when the weakness of the bank came to be suspected, there was an immediate transfer of such funds to safer custodians. The Court of Chancery alone had $200,000 deposited, to avoid the withdrawal of which the bank furnished special securities. The whole of the funds of the Home District Building Society, amounting at one time to $180,000, were in the hands of the bank, and of this amount $60,000 had lately been withdrawn. Other trust funds were invested in the stock of the bank, as, for instance, $125,000 by the Church of Scotland, and about $27,000 by the trustees of Queen's University.

Thus, though the general position of the bank was actually quite sound, it found itself unable to command sufficient ready cash to meet the heavy drain upon it, represented by transfers of balances to other banks. In the end of September, 1867, the bank applied to the Government for assistance, which it was discovered the Government could not grant without the consent of its fiscal agent, the Bank of Montreal, such being a part of the agreement with that institution. However, apparently on the recommendation of the Government, the Bank of Montreal advanced $300,000, ample security being taken. The drain continuing, and a number of its most readily available securities being already pledged, the bank applied to the Government for further help, which was refused. Immediately afterwards representatives of most of the banks met on summons in Montreal. After various attempts to arrange matters, the details of which became the basis of numerous bitter attacks upon the Bank of Montreal, the negotiations broke down and the bank was forced to suspend payment on the 22nd of October, 1867.

Subsequent investigation proved that the bank was really in a solvent condition, but had not been able to command sufficient ready cash. The last monthly statement of the bank, on 30th September, 1867, was as follows:—

LIABILITIES.

Promissory notes in circulation	$1,248,979
Balances due to other banks	400,391
Cash Deposits not bearing interest	1,413,622
Cash deposits bearing interest	1,594,056
Total Liabilities	$4,657,048

ASSETS.

Coin, buillion and Provincial Notes	$ 708,141
Landed or other Property	277,687
Government Securities	400,000
Promissory Notes or Bills of other Banks	106,284
Balances due from other Banks	174,231
Notes and Bills Discounted and Cash Credits	6,975,857
Other debts due to the Bank	498,782
Total Assets	$9,140,982

The paid-up capital of the bank amounted to $4,000,000, with an additional rest fund of $300,000. Beyond the amount of its funds tied up in railroad bonds, and amounting to

$1,800,000, its losses in the ordinary course of trade amounted to $1,100,000, which was not greater than that of the Bank of Montreal itself during the same period. There was considerable evidence, however, that the management of the bank had not been very sound. Quite unwarrantable advances had been made to some of the directors, who, not being able to meet their obligations, had retired from the board.

Finding how the bank stood, it was soon recognized that the noteholders and depositors at least would not lose anything, if able to await liquidation. Proposals were immediately started, in several responsible quarters, with a view to resuscitating the bank either by reviving it on its own basis, or by effecting an amalgamation with some other institution. After much negotiation, in the early part of 1868 the Merchants Bank of Montreal took over the assets of the Commercial Bank at one-third of their par value, and was considered to have made a very excellent bargain.

ADAM SHORT.

INTERVIEWS FROM A NEWSPAPER STANDPOINT.

TO consider itself "une femme incomprise" is one of the privileges which the trade of newspaper-making shares with the learned professions: to explain why this is so or to proceed to justify its right to such a belief means a delving to the roots of the existing order of things with a proportionate piling up of exhumed theories to an extent not permissible except in the sanctity of one's own professional back-yard. Presumably even bankers have sufficient troubles of their own to be exempted—except in a purely professional capacity—from the recital of those of others.

There are, however, certain current misconceptions of the purposes and aims of newspapers which seem to the newspaper-man to thrive more luxuriantly and to attain a hardier growth behind the bronze and marble of a bank's counters than elsewhere in the business world. He knows of their existence through the rare excursions his professional duties have forced him to make to the lair of the Bank Manager. In fact he usually emerges with a better knowledge of them than of that particular manager's views, yet from such cursory inspection as is allowed in his rapid journey in and out again, they are, to the best of his belief, as much an anachronism as a forest of the giant carboniferous ferns would be to-day on the highly conventional slopes of Mount Royal.

That the rapid development of the daily paper to its present activity and usefulness has been attended by many regrettable and unfortunate features, none are more willing to admit than those who have to do with the making of newspapers. That certain of these concomitant features would naturally be peculiarly distasteful to financial men is equally obvious. Even with the utmost care, inaccuracies of statement will creep into the most carefully edited journals, interviews are not always accurate, and quotation marks have a habit of dropping in and out of

proof slips which it is impossible to explain. Yet all this makes for its own readjustment; the newspaper-reading public, which is practically the population of the country, understand and makes allowances, and the error which, recorded ineffaceably on the pages of an enduring history, would require endless explanation to set right, is discounted and minimized because the imperfection of the medium in which it appeared is recognized and acknowledged.

It is not pleasant to admit that the product of any plant is imperfect and, within decreasing limits, will probably never attain that state of perfection which is the ideal of the producer of any commodity and yet this is the condition in which the newspaper world of to-day finds itself. It recognizes two forces constantly, unceasingly in operation; one controlling the gathering of the greatest amount of legitimate news and its presentation to the public in the shortest possible time; the other directing the revision and verification of the vast amount of matter which every day is hurried to its offices. On one side are ranged its hundreds of special correspondents and dozens of reporters, in possession of all the facilities which leased telegraph wires, a highly developed telephone service and the latest mechanical equipments can place at their disposal; on the other, the corps of editors who are held personally responsible for all errors in the "copy" they handle. Try as one may, it has not yet been found possible, anywhere, at any time, to attain a condition of stable equilibrium between these two which will guarantee that every item appearing in every edition of the paper is absolutely accurate in all its details. News is, unfortunately, a matter of hours—almost a matter of moments, and nowhere can a clearer idea of the inelastic, inflexible character of time be obtained than in a daily paper during the hour of going to press. The item held one minute beyond the appointed time for placing it in the "form" is usually as worthless as if it had never been written. Be it never so carefully verified or so accurately corrected as to its details, by the next day its value generally has departed. What is to be done in these respects, must be done as best can be within the limits at the editor's disposal or else the item must be "held over."

It follows naturally that the more important the subject-matter, the narrower the margin which may be allowed for error in reporting it, for the chagrin of an editor whose paper has

misquoted the remarks of a public man is no whit less than that of the public man who has been misquoted. "Moulding public opinion" to-day means what? Not printing ex parte accounts of public events, not "editing" interviews until they are made to support a certain line of action, not suppressing or minimizing the doings and sayings of any individual or combination of individuals who can legitimately lay claim to being a factor in public life—newspaper-readers have long passed the period when such censor-ship was tolerated. It is no longer the editor who moulds through his news columns, it is the public; the reader to-day is the man who is read of to-morrow. He has the right to demand that the comments he may make on current events, the accounts that are given of the public activities in which he engages shall be treated as scrupulously as if they emanated directly from the editorial department itself. As a paper attains to or falls short of this standard, so is its success measured, for the public itself is the court of last resort, from which there is no appeal and where judgment is made without fear and without prejudice.

A more consistent independence of thought, a higher development of individual initiative, a more enduring sense of personal responsibility — these are the three dominant psychological characteristics of the new era which we recognize as having dawned without being able to more than approximately fix the date of its dawning. The development of each of them has been more materially aided by the newspapers than by any other known agency and each has, in turn, aided in the development of the newspaper through the readjustment of its methods for the discharge of new functions and responsibilities. The imperative mood has passed away; the editor is no longer asked "what must we believe?" but "what are the facts?"; and his readers, each after his kind, build up generalizations and draw deductions which, right or wrong, are at least the products of individual intellection.

In a word, the newspaper of to-day is a medium of co-operation. It is the only means by which each individual entity in the illimitable stream of humanity which rushes unceasingly from the horizon we call life to the one we call death can, in its passing, acquire a knowledge of the part it plays in the problem of the universe. No force conceivable by the human mind can control the vast energies of human living except from within;

if the stream is kept in its fixed and proper channels, if its energies are used to build up and not to destroy, it is because there exists co-ordination and a common purpose, which is to say, co-operation. By the results attained the answer is given, not to us but some time and somewhere, to the question of the use of living.

With all due respect to the Church, the Houses of Parliament and the few other institutions which still maintain, in the face of much discouragement, that ancient and honourable thing called oratory, the "voice of authority" is most effective to-day when it is modulated to the pitch best suited for verbatim reporting. Eloquence has become, more or less, a waste of energy; in the majority of cases it is even more, it is a tactical mistake. With the multiplication of the available audience from a few thousand to hundreds of thousands, the man with a message has come to recognize that the speech which sounds well is not the speech which reads well. Rolling periods, ponderous trophies and the dozen other tricks of eloquence which carried conviction and glossed over deficiencies in logic in the days when emotional oratory was at its prime do not, as a general thing, stand the test of a coldly unresponsive printed page. Whatever the ordinary man may like to hear, he has certain very fixed ideas on what he is willing to read, and, among them, labored analogies, classical quotations and fervid appeals to the Spirit of Liberty certainly do not find a place. There are many and obvious reasons for believing that the public man of to-day understands this, and conducts himself accordingly. The much-deplored decline in the standard of public oratory is only a last lingering protest against the passing of the old order of things. The form of public oratory has changed, but its power has been multiplied inconceivably. The man whose sayings or writings are read by half the civilized world exercises an influence such as at no other period in the world's history has been within the grasp of an individual. His appeals for good-citizenship, for co-operation in the great essentials of life, have an audience such as none of the famous orators of by-gone days could have dreamed of—an audience in every field of human activity and in every country under the sun, summoned immediately at his call. How far he is able to influence them to his way of thinking depends on his personality; civilization does its part when it gives him his audience.

The newspaper, however, believes that it has other rights, and even other duties, than simply calling this assembly together; having, as it were, drummed up its share of the meeting, it reserves the privilege as chairman of making certain prefatory remarks, of emphasizing certain points, even of commenting and criticizing if it thinks necessary. Sometimes, even very often, these remarks and comments are treated after the manner of the generality of chairman's remarks and complacently ignored; occasionally they, too, are copied by the great Press Agencies which co-operate internationally in the distribution of news, and are themselves set before the reading public of a dozen different countries. Under any circumstances the privilege is reserved and usually taken advantage of. The ego still holds undisputed sway over one part of the paper which it still proudly asserts is "the" editorial page.

Writers of editorials are called on to discharge a variety of duties. First of all, they are the watchers in the tower who constantly scan the horizon for some sign of the approach of a disturbing element. It is for them to send forth the clarion call which shall, figuratively, summon the populace to the market place or, more prosaically, direct its attention to whatever threatens the peace and well-being of the community; if, in the glory of trumpet-voiced appeals, they occasionally mistake a dust-cloud for a devastating tornado, it must be said in extenuation that tornadoes are by no means infrequent phenomena. In times of deep tranquility, it is even allowable that they play the muezzin and summon the faithful to prayer and thanksgiving, the faithful reserving the right to pray and be thankful or not, as pleases them. For the most part, however, the editorial page has a more humble but no less useful activity, as befits diurnal existence in a utilitarian world. Representing, as it does, personal views, in it are preserved certain of the characteristics of the newspapers of the last generation; there and there alone is the first personal pronoun found in its glory, there the paper's personal equation may be detected and its views of men and measures exposed for sanction or criticism. It is on the editorial page that the newspaper serves up its daily menu of pre-digested opinions suitable for easy and speedy assimilation with the minimum of effort, on which the average man depends for the bulk of his intellectual diet. The constituents must be nutritious but impersonal—war, literature, art and kindred

topics—and their treatment must be such as to make absorption pleasant as well as advantageous. The chaff must be separated from the wheat and the essentials from the merely picturesque, and, if this is intelligently done, the task of forming a personal opinion will have been reduced to the minimum. When the average man, after reading an editorial comment on some event, says "that is what I thought," he usually means that is what he would have thought had he not been spared the trouble of supplying all but the last step in the process of coming to a conclusion. In catering to a busy public one must be obvious—but not too obvious. The best Breakfast Foods do not hint at a lack of digestive power, but only a humane desire to reduce the labor of digestion to a minimum.

The editorial page is, then, a corollary of the news departments of a daily paper without the impairment of its traditional dignity, while the news departments are every day becoming more editorial, in the true meaning, without the loss of that timeliness which is essentially a part of modern conditions. As we develop intellectually as a people, it is by the time-honored processes and through the historic steps which history so clearly points out. The objective to-day is recognizably of less importance in comparison with the subjective than it was ten years ago; to chronicle results is important and necessary, but to give an insight into causes is vastly more so. Because this is recognized, interviews are to-day one of the most important as well as most widely-read features of daily journalism. On this point at least, the newspaper-maker and the newspaper-taker see eye to eye.

Such a condition of things, naturally, is open to gross and even to grotesque abuse. The views of a famous politician on the servant-girl question or of a distinguished divine on the evils of tight-lacing are ridiculous, as any prostitution of a potentially great influence to trivial purposes is bound to be ridiculous, and in being so it works injury to the whole system of interchange of ideas. It may be pointed out, however, that the offending in such cases is not always on the side of the newspaper—but that is merely an incidental detail. The legitimate interview remains one of the most important economic developments of this generation.

Chauncey Depew said recently that the first half of every public man's career was devoted to trying to get into the news-

papers and the second half to trying to keep out of them, a statement which, beneath its humor, contains the germ of as scathing a criticism of the public life of the neighboring republic as could be penned. If arrant, utter self-interest is the key-note of a successful public career, then the media through which it works are rightly enough to be viewed with suspicion. Fortunately, the senior Senator from New York is not a man whom the public of even his own country regard as an exemplification of the highest ideals of good-citizenship, a fact which renders his views on the misuse of newspaper interviews of peculiar value. None know better than newspapermen the insidious form in which efforts to exploit personalities or personal interests take or the impossibility of detecting all of them before they have been published as legitimate news, but the knowledge makes for increasing care in scrutinizing voluntary offerings in this line and a slowly-perfecting acquaintance with the sources of infection.

An editor does believe, then, that he is within his rights in asking any individual whose views will have weight with his readers for an expression of opinion on any great public question on which he is competent to speak with authority. This does not mean that a lawyer is to be asked for gratuitous information on a technical legal question, nor a manufacturer on the internal economy of his plant, nor a banker on the value of certain investments. The right of deciding what is a private matter and what is to be considered of public value is inalienably with the interviewed, allowance always being made for the reticence which many men feel in giving public utterance to personal opinions. It can scarcely be too strongly emphasized that the great majority of people are to-day keenly desirous of being right in their judgments and, concomitantly, eager and even anxious for advice from sources they know to be unimpeachable. It should be possible to add, as a corollary, that those in a position to advise are as willing to place their knowledge at the disposal of their fellow-men; it probably would be if actual conditions more nearly approached the ideal, and it is to this effort that the newspaper is devoting its best endeavors.

If quantity were the only desideratum, the problem of supplying this demand would be easy of solution. Public men, that is to say men occupying positions of prominence by grace of public desire or public tolerance, can generally be relied on to give an interesting and even a valuable statement of their views

on social, moral or political questions of the first magnitude. In the third of these three categories, politics, their views are invaluable to newspaper readers, but politics, after all, form but a moderate part of the interest of life. Again, the clergy are in a position, by virtue of their calling, to discuss all forms of human activity, but it is a disability from which the cloth has long suffered that its standpoint is currently believed to be of the past and future rather than the present, and ideal rather than practical. In the great field of economics men to-day want a foundation in reality, in personal knowledge, for their opinions; when they cannot supply it from their own experience, they ask that it be supplied them from the actual field of business and finance, not from the text-books of moral philosophy, accurate and desirable as such opinions might be.

Right or wrong, the dominant ideal of our day is material success—success which is tangible and palpable. It is perfectly legitimate for a newspaper to discuss or have discussed whether this is the highest ideal of which the age is capable, but it is also among its practical functions, pending a decision of the question, to co-operate to the best of its ability in securing material prosperity. Finance, in one or other of its multifarious forms, is the subject in which its readers are most immediately and consistently interested. To the average man, the possession of a bank account is the outward and visible sign of his belief in ultimate financial salvation, as his church pew is evidence of his adherence to the Christian religion. It is not a convenience so much as a moral necessity. The creed and ritual of the money-market knows no distinction of nationality, age or condition, for its basic principle is the common solvent of all the heterogeneous elements which go to make up modern society.

From the specific, newspaper standpoint, this means that one interview with a man whose name is known in the world of finance is worth half-a-dozen with men distinguished in other fields of activity. A banker, a manufacturer or a business-man discussing matters of general public policy, is surer of a more attentive and sympathetic hearing than any other class of citizen, because he approaches the subject from a standpoint common to the public as a whole, because he is what is generally known as "a practical man." In Canada, as elsewhere, there is a subconscious impression that public policy is too often formulated and directed by men unfamiliar with the actual conditions of

industry and finance; possibly this is largely due to the fact that the lure of politics rarely calls the successful business-man from his desk in the counting-house to the more prominent but less profitable seat in the Houses of Parliament. Whatever the cause, the fact remains that the mass of the electorate value more highly a few words of comment on current legislation by a man whose acumen and insight into affairs they know personally, than a dozen verbose speeches of criticism in the Commons.

Canada's solution of the problems which the growth of her population and commerce are rapidly bringing to the fore is vitally essential to every class of the commonwealth. Many of them are directly concerned with finance, all of them have a more or less intimate relationship with it. To arrive at correct solutions, there is need of all the light which can be thrown upon them. It is better that this light should be direct than reflected, transmitted first hand to the source of legislation than percolated through the more or less clouded windows where the process of manufacturing legislation is carried on.

J. S. Lewis, Jun.

FIRE WASTE, FIRE PROTECTION AND FIRE INSURANCE.

T. L. Morrisey.

THOUGH "A penny saved is a penny made" be our first lesson in economics, yet it is likely to be the first forgotten. Men strive for the acquisition of new wealth, unmindful that wealth already acquired is equally capable of serving their purpose, with the additional advantage that they have it.

This characteristic is more marked when and where money is most plentiful. As it is with individuals so is it with the community, and where we find the largesse of nature most bountiful, there may we look for the greatest disregard of the principles of economy.

In our own country at the present time the dominant note is one of progress and prosperity; immigrants are pouring in as never before; our great natural resources, lying dormant for such a length of time, are at last attracting world-wide attention, and optimism is the order of the day. So intent are we upon profiting by our opportunities that we find ourselves inclined to overlook one very serious drain upon the industry of the country. A conservative estimate places the value of property destroyed by fire in Canada each year at ten million dollars. Perhaps this sum may appear small beside the total trade returns of the country, some four hundred and sixty odd millions; but it forms a very considerable percentage of the profits on this trade. It is roughly one-fourth of the customs duty on imports, and the tariff looms large in the eyes of the business community. The annual fire waste of Canada is equal to about two-thirds its coal production, and one-half its gold production. Compared with other principal products of the country, it is equal to about two-fifths the value of our fisheries, and one-fourth the value of our exports of the products of the forests. In comparison with agriculture alone do the figures seem insignificant; we do not burn up more than probably one-fiftieth of the products of the farm—or the equivalent in value—though if the burning were to take the form of one stack of

wheat representing, say, ten to twelve million bushels, the sin of the waste might appeal to us with greater force.

Ten million dollars is a goodly sum. Consider what might be done with it if the saving could be effected. If we could stop the waste, out of the saving alone we could build the new transcontinental railway and pay for it during its construction; and, allowing for a conflagration or two during the period, have enough left over to equip the terminals at either end.

If that money were saved, we could with it endow liberally all the hospitals and charitable institutions in the land; indeed, if directed in the proper channel, the poor would be no longer with us—there would be no poor.

If what has been stated above be measurably near the truth, what a boon it would be to Canada if some means could be devised for stopping this fearful drain upon the country's resources. Perhaps it is too much to hope that the waste could be stopped entirely, but that the conditions might be greatly ameliorated there can be little doubt. As contributing to this end, first in importance the writer would put the arousal of public interest. Without an intelligent public interest, little can be hoped for. So long as the public are content to tax themselves to meet this drain, (and that is what they are doing, whether they go uninsured and let the loss fall upon the individual, or pay the premiums necessary for insurance, and thereby simply distribute it over a larger number) it is likely to continue. But let the public evidence a disposition to earnestly grapple with the question, and results will speedily follow. The first thing to do is to place the stamp of disapproval upon the having of a fire. The great majority of fires are from preventable causes, therefore it follows that the great majority of those having fires are guilty of carelessness at least. If public opinion frowned down such carelessness as being inimical to the public good, and made the individual feel, if insured, the responsibility of drawing upon the common fund created to make good losses by fire (for insurance funds, no matter in what form, are nothing more), it would have an appreciable effect. The claimant would lose that jocund air now so frequently observed, and would feel that instead of being supported in making extravagant claims, all such attempts would be frustrated. Those responsible for fires, whether

owners of property or others, would be held strictly accountable for their negligence. Let the builder who constructs a defective chimney or hearth; the plumber who looks for a gas leak with an open light, or who, when examining pipes, drops a lighted candle down between walls, and hopes it will go out; the electric supply company that turns a current of two thousand volts into a building wired for two hundred; the mill owner, steamboat owner, railway company and other users of steam, who through lack of proper precautions cause destruction of property; let all these and similar offenders feel that they will be held strictly accountable and responsible for the ensuing damages to the extent of their ability to make good, and proper precautions will be taken. Minimize the fires that might be prevented, and half the battle is won.

But notwithstanding the exercise of every care, fires will happen. It has been so in the past, and it will continue to be so, though an enlightened public opinion again may do much towards keeping the resultant loss down.

It is apparent to all who have made a study of the question that the rate of burning in this country is disturbed at intervals by the occasional outbreak which gets beyond the means at hand for its control, and so develops into a conflagration, that is to say, a fire that practically burns itself out, such as happened within recent times at St. John, N.B.; Windsor, N.S.; New Westminster, B.C.; Ottawa, Montreal and Toronto. It must also be apparent that the places where the conflagrations have occurred are not the only places where such a thing is possible. There may be some exceptions, and doubtless there are, but in almost every city and town in Canada similar conditions are found to exist as existed in some one of the places above mentioned, and all that is necessary to produce similar results is the same set of circumstances to arise. That being admitted, it would seem an easy step on the part of the public to determine to guard against such recurrences. As to how this can best be accomplished hardly comes within the purview of this article, intended rather to indicate the expediency of making the attempt, though that may not be out of place to suggest:—

1. Segregation of specially hazardous risks.
2. Better construction of new buildings and the elimination of hazardous features in old.
3. Providing of adequate means for extinction of fires.

These three simple headings embrace the Alpha and Omega of the whole question. Obviously places where fires are likely to start should not be tolerated in proximity to other property; experience has shown that buildings of ordinary construction once alight burn with extraordinary rapidity, the fire spreading through stairways, light wells and elevator shafts, and in like manner communicating to adjacent buildings through unprotected window openings in lanes and narrow streets; but experience also teaches how to remedy such defects. It is perhaps with the last suggestion—the necessity of providing adequate means for extinction of fires—that most would be inclined to cavil, though be it said to the credit of the good sense of the business men of Canada that the various Boards of Trade throughout the country are at one with the underwriters upon this important matter.

Naturally the cost is the deterrent, and everyone must sympathize with City Councils called upon to provide ways and means, too frequently against popular opinion. But where a city pleads poverty and inability to assume the financial obligation, how much less can it afford to go without the protection? Not so long ago manufacturers and others were content, as a matter of course, with such fire protection as the town afforded, with perhaps the addition of a private pump. It is different to-day. All modern factories are equipped with automatic sprinklers, installed generally at a cost of from five to ten per cent. of the value of the property under protection; and it has been proved sound economy. If the principle be extended to cities, how would it work out? A moderate estimate of the insurable value of the city of Montreal, say, would be $250,000,000, so that five per cent. on that would give a sum of $12,500,000 to be expended on fire protection! The exigencies of the case do not call for anything like such an expenditure, as the ordinary protection is ample for the residential and outlying districts, but a million or two might be well spent in providing a high pressure system for fire purposes covering the congested portions of the city, and such a system would seem to be absolutely necessary to cope with these extraordinary outbreaks which occur with sufficient regularity to prove that the danger is always imminent.

Many appear to consider that the advocacy of such expenditure emanate from insurance interests, prompted by selfish

motives. Nothing could be further from the truth. Theoretically, at least, it matters little to insurance interests whether the risk be great or small, since the rate is made to fit the hazard, or as nearly so as those engaged in the business can determine; and it would appear, notwithstanding the strictures passed upon those engaged in the business, that they have fulfilled their obligations fairly well. A reference to the reports of the Superintendent of Insurance will disclose the fact that over the whole period covered by the records the account just about balances, that is to say, the amount paid away in losses and expenses is just about equal to the amount of premiums collected. Of course the results to the various companies have been different; some have succeeded in making a profit, others show a loss, and many, unable to stand the strain, have gone under; but it is a significant fact that if all the companies had got a pro rata share of all the business from the time when government supervision of insurance was first inaugurated in Canada in 1869, they would be no better, but possibly a little worse off now than at the beginning. In the light of this truly remarkable fact, which cannot be gainsaid, the fulminations against the underwriters would seem to lose their point. It is not pretended that during all that time the rates of insurance have remained the same; they have not. In fact the cost of insurance has fluctuated pretty much the same as the cost of other commodities. The same laws that govern prices generally—whether it be the price of cotton or the price of money—operate just the same in insurance. If conditions always remained the same, the probabilities are the cost of insurance would remain the same, but conditions are ever changing, and it behooves the careful underwriter to change with them. For this reason it is manifestly unreasonable on the part of City Councils, Boards of Trade and other bodies to endeavor to exact promises from underwriters as to what the rates will be in the event of certain improvements in fire protection being provided; and it would be very shortsighted on the part of underwriters to make any such promises. The principle of mutuality is underlying all forms of insurance, and therefore rates must of necessity be regulated to a large extent by the experience. When the experience is favourable rates are low; when unfavourable, high. No one can tell what the rates will be in the future, because no one can tell what the experience

will be, and therefore to make a promise, which under certain conditions cannot be kept, is to lay oneself open to the charge of bad faith. Besides, of what value would such a promise be? Let us suppose the companies experienced another Chicago. Would it be imagined for an instant that, promises or no promises, the rates would remain the same? Most assuredly not, The only honest and straightforward answer that underwriters can give to such importunities is: Go ahead and make the improvements, resting assured that full credit will be given—the better the risk the better the rate.

There is another phase of the insurance question of supreme importance to the public who pay premiums, as well as to those who furnish credit based upon the material possessions of those to whom the credit is extended, and that is the ability of the insurance Companies to meet the obligations assumed. It has been estimated already that the insurable value of property in the city of Montreal is, roughly, $250,000,000. Against this we find the resources available for fire losses of companies licensed to do business in Canada to be approximately $400,000,000, and if there be added to this sum the assets of companies not licensed, but interested indirectly through reinsurance, the total might easily be doubled, so that it will be seen no fault can be found with the security. The contemplation of these figures suggests at once the vastness of the business of fire insurance and its world-wide ramifications; it is a fabric that cannot be reared in a day, and what affects a part is felt through the whole. Thus it is as idle for the indignant Toronto manufacturers to talk of going to Germany, Russia, anywhere for cover, as a protest against the iniquitous action on the part of Canadian underwriters in raising their rates as it is to talk of forming new companies, since Germany, Russia and elsewhere had already had a piece of Toronto, and if not instigators, were at least in hearty accord with the movement. New companies may be formed, provided there be found those of sufficient hardihood to subscribe for the stock to meet the Government requirements, and for a few hundred dollars the requisite supplies, including beautifully lithographed policy forms, may be obtained; but—when it comes to these four hundred millions—there's the thing that can't be duplicated very readily.

The question had better be looked at squarely by all interests. There can be no denying the fact that the fire waste of Canada is large, too large; that it can be lessened by a proper appreciation on the part of the public of the necessity of not only guarding against the happening of fire, but also against the spread, the latter can only be accomplished by the expenditure of money, and with no niggard hand; and lastly, that the cost of insurance is merely incidental, and dependent entirely upon experience, and as it rests with the public largely what this experience shall be, so with the public does it rest what shall be the cost of insurance.

A COMPARISON OF BANKING SYSTEMS.

The frequency of the request from bankers and students of political economy for information about the points of difference in the systems of banking and currency in Canada and the United States renders the reproduction in this issue of the JOURNAL of an address delivered by Mr. B. E. Walker most interesting.

The address was given by the talented general manager of the Canadian Bank of Commerce at a meeting of the New York State Bankers' Association, held at Saratoga in 1895. As a clear and convincing illustration of the advantages of the branch system when compared with the small local bank with interests which have not the national character of the stronger and larger institutions, Mr. Walker's address is one of the best tributes yet paid to a banking system for the continuous improvement of which he has been such an ardent and eloquent advocate.

The address in question was as follows:

This is the third time I have been invited to address an American audience on the subject of banking and currency, with express reference to the admitted imperfections of your system and the alleged superiority of the Canadian system, and while in the mere desire for information, I recognize that avariciousness for other things than money of which Emerson wrote as characteristic of the American people, I recognize still more the open-mindedness and generosity which admits the possibility that the small and scattered community to the north, still struggling for a place among the nations, may have developed institutions worthy of your study and perhaps imitation.

But notwithstanding your generosity, I could not have the hardihood to address you on a subject involving criticism of some features in your national affairs, were it not that I may claim the right to discuss a family difficulty to some extent as inmate, if not a member, of the household. The bank with which I am connected has for 23 years been doing business in New York, and one of our border offices exists mainly to lend money in the Western States, while our interests really extend

almost throughout the United States. If I also add that I resided many years in New York, I hope that you will all feel that I have no pleasure in mere criticism, but only in what prospect there may be of reform in the currency and banking of this great country.

I will not speak directly of Canadian banking. I have elsewhere expressed my views on that subject, and now that we possess a complete history* of its development from the beginning in 1817 down to date, written by an American, a Cornell graduate and a fellow of Columbia, and already re-published by an American economic society, it is no longer necessary. In any event I would much prefer that you should believe all the handsome things your president has said about us and which I would not dare to repeat.

If we compare banking in the United States with the other prominent systems of the world, we are struck with certain features in which your system differs. As these other systems represent the two great classes of banks: (1) those which are the result of compromise between the commercial needs of the people and the necessities of the government, such as England, France and Germany; and (2) those which more nearly represent only the commercial needs, such as Scotland and Canada, we may fairly conclude that any quality possessed by the five countries named is inherent in sound banking, and if not included in your system its lack is surely subject for careful study. Now in all five countries the banks are few in number, with large capital and branches, while the banks of the United States are numbered by thousands, have individually small capital and no branches. In the five countries the paper money is created almost altogether by the banks, and these are, of course, in constant touch with the business community. In the United States the paper money, by whatever name it may be known, is practically all created by the Government, which is not in touch with the business community. These are two startling differences and, in my opinion, both of paramount importance. I do not think I am wrong in saying that these two differences are the causes of most of the present evils in the finances of the United States, and if we add the third quality possessed by the

* The Canadian Banking System, Breckenridge, published in Journal Canadian Bankers' Association, and republished by American Economic Association, 1895.

National Banking System, of legal reserves, we have the three most potent causes of high interest rates and panics.

It will occur to every banker present that at one time the United States did not differ so widely from the other countries in the features mentioned. It once possessed a real National bank with large capital and branches; it had other banks with branches; its currency, although in many ways very unsatisfactory, was entirely created by banks, and it had no such peculiar feature as an attempt to make men wise in the matter of reserves by legislation. It is customary to charge the present difficulties to the war, but I hope I shall offend no Democrat here if I lay the charge mainly at the feet of Andrew Jackson. Before 1832, as since, banking was hampered by the fact that the franchise was granted by the State and not by the Federal Government, and this is perhaps the greatest cause of the thousands of small banks in place of the few great ones, still, in these early days of banking some State banks had branches, and there was one great bank with branches which might have wrought many changes in time by its example. But the United States Bank, as we all know, was ruthlessly destroyed by Jackson refusing to renew its charter, and the events of the ensuing years during which in its struggle for existence it pursued a course not more free from blame than the Government, have caused many to misunderstand the true meaning of the history of that eventful time in banking. The absence of the United States Bank, or of any great institution of national importance, and the existence of a Treasury system which compelled the Government to carry on its finances without the aid of such a bank, caused the issue of 1861 in Government circulating notes not bearing interest. We need not enter into reasons, but this was followed by the National Banking Act and, as a necessity, by the Federal tax of 10 per cent. per annum on the circulation of all State bank notes. The National bank notes were only bank notes in name. For all practical purposes the Federal Government had destroyed the bank-note issues of the country and had availed itself of the temporary advantage flowing from the possession of such a power, only to discover later the terrible responsibility also involved. The issue of non-interest bearing, and at the same time irredeemable, paper money by the Government created or revived the theory that no one but the Government should create paper money. The

greenback agitation easily followed, and while directly unsuccessful, was indirectly responsible for the silver legislation of 1878 and subsequent years.

Out of the welter of this history five different kinds of paper money exist in theory and four in fact. 1. State bank notes in theory, suppressed in fact by the tax. 2. War legal tenders. 3. National bank notes. 4. Bland silver certificates. 5. Sherman silver purchase notes. All of the four last classes of notes are not directly redeemable by the Treasury in coin, but practically the Treasury must redeem any of them in *gold,* or this great country must pass from its present position of one of the gold-standard as opposed to the silver-standard countries of the world. The Treasury, as I have said, is not in touch with the business community, but has been made by Congress to assume this terrible responsibility without having the power, except by such costly expedients as that referred to here to-day, to maintain its stock of gold. I do not need to enlarge upon it to an audience of bankers. The responsibilities of the Treasury are unbearable, and if there is to be a reform in banking and currency it must involve the redemption, gradually or speedily, as the circumstances may warrant, of the issues of the Government. I hope reformers will not be satisfied indeed until the Government has retired from the business of banking and returns to its own proper function in connection with money, the minting of metallic money. The Treasury should give up its note-issuing functions, except, perhaps, as the issuer of certificates for gold lodged, not merely because its responsibilities have become unbearable, but also because it is incapable of performing the note-issuing function satisfactorily.

The question as to whether the Treasury should surrender and the banks resume the function of issuing paper money is clearly before the people of the United States, but the question of reforming the system of banking in other respects is not, and my text is that the two reforms are necessary to each other, that the free flow of loanable capital is as vital to sound finances as an elastic currency. Permit me to repeat from an address, at Chicago, my attempt to state what is necessary in a banking system in order that it may answer the requirements of a rapidly growing country and yet be safe and profitable:

1. It should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade.

2. It should possess the machinery necessary to distribute money over the whole area of the country, so that the smallest possible inequalities in the rate of interest will result.

3. It should supply the legitimate wants of the borrower, not merely under ordinary circumstances, but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures.

4. It should afford the greatest possible measure of safety to the depositor.

Before taking up the question of note-issues let me also quote from the same address some remarks enlarging upon the necessity for a free flow of loanable capital and bearing on other requirements in a banking system apart from note-issues.

"In discussing the banking systems in older countries, the borrower is not often considered. Men must borrow where and how they can, and pay as much or as little for the money as circumstances require. I believe too strongly in the necessity for an absolute performance of engagements, to think that it is a requirement in any banking system that it shall make the path of the debtor easy. Every banker should discourage debt, and keep before the borrower the fact that he who borrows must pay or go to the wall. But in America the debtor class is apt to make itself heard, and I wish to show what our branch system does for the worthy borrower as compared with the United States National Banking System.

In a country where the money accumulated each year by the people's savings does not exceed the money required for new business ventures, it is plain that the system of banking which most completely gathers up these savings and places them at the disposal of the borrowers, is the best. It is to be remembered that this involves the savings of one slow-going community being applied to another community where the enterprise is out of proportion to the money at command in that locality. Now, in Canada, with its banks with forty and fifty branches, we see the deposits of the saving communities applied directly to the country's new enterprises in a manner nearly perfect. The Bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the Northwest, where the new enterprises far exceed the people's savings. My own bank in the

same manner gathers deposits in the quiet unenterprising parts of Ontario, and lends the money in the enterprising localities, the whole result being that forty or fifty business centres, in no case having an exact equilibrium of deposits and loans, are able to balance the excess or deficiency of capital, economizing every dollar, the depositor obtaining a fair rate of interest, and the borrower obtaining money at a lower rate than borrowers in any of the colonies of Great Britain, and a lower rate than in the United States, except in the very great cities of the East. So perfectly is this disturbance of capital made, that as between the highest class borrower in Montreal or Toronto, and the ordinary merchant in the Northwest, the difference in interest paid is not more than one or two per cent.

In the United States, as we know, banks have no branches. There are banks in New York and the East seeking investment for their money, and refusing to allow any interest because there are not sufficient borrowers to take up their deposits; and there are banks in the West and South which cannot begin to supply their borrowing customers, because they have only the money of the immediate locality at their command, and have no direct access to the money in the East, which is so eagerly seeking investment. To avoid a difficulty which would otherwise be unbearable, the western and southern banks sometimes re-discount their customers' notes with banks in the East, while many of their customers, not being able to rely on them for assistance, are forced to float paper through eastern note-brokers. But, of course, the western and southern banks wanting money, and the eastern banks having it, cannot come together by chance, and there is no machinery for bringing them together. So it follows that a Boston bank may be anxiously looking for investments at four or five per cent., while in some rich western State ten and even twelve per cent. is being paid. These are extreme cases, but I have quoted an extreme case in Canada, where the capital marches automatically across the continent to find the borrower, and the extra interest obtained scarcely pays the loss of time it would take to send it so far, were the machinery not so perfect.

As I have indicated, it should be the object of every country to economize credit, to economize the money of the country so that every borrower with adequate security can be reached by someone able to lend, and the machinery for doing

this has always been recognized in our banks. That is surely not a perfect system of banking under which the surplus money in every unenterprising community has a tendency to stay there, while the surplus money required by an enterprising community has to be sought at a distance. But if by paying a higher rate of interest, and seeking diligently, it could always be found, the position would not be so bad. The fact is that when it is most wanted, distrust is at its height, and the cautious eastern banker buttons up his pocket. When there is no inducement to avert trouble to a community by supplying its wants in time of financial stress, there is no inclination to do so. The individual banks, East or West, are not apt to have a very large sense of responsibility for the welfare of the country as a whole, or for any considerable portion of it. But the banks in Canada with thirty, forty, or fifty branches, with interests which it is no exaggeration to describe as national, cannot be idle or indifferent in time of trouble, cannot turn a deaf ear to the legitimate wants of the farmer in the prairie provinces, any more than to the wealthy merchant or manufacturer in the East. Their business is to gather up the wealth of a nation, not a town or city, and to supply the borrowing wants of a nation.

There was a time in Canada, about twenty years ago, when some people thought that in every town, a bank, no matter how small, provided it had no branches, and had its owners resident in the neighbourhood, was a greater help to the town than the branch of a large and powerful bank. In those days, perhaps, the great banks were too autocratic, had not been taught by competition to respect fully the wants of each community. If this feeling ever existed to any extent, it has passed away. We are, in fact, in danger of the results of over-competition. I do not know any country in the world so well supplied with banking facilities as Canada. The branch system not only enables every town of 1,000 or 1,200 people to have a joint-stock bank, but to have a bank with a power behind it generally twenty to fifty times greater than such a bank as is found in towns of similar size in the United States would have.

But one of the main features of the branch system is connected intimately with our power to issue notes based upon the general assets of the bank. When the statement of a large Canadian bank is examined by an American banker, the com-

paratively small amount of actual cash must be noticeable. He will notice that the bank is careful to have large assets in the United States which may be taken back to Canada in times of financial strain there, and large assets in convertible shape at home, but having regard to actual cash as the machinery for carrying on the business at the counter, how can a bank with forty or fifty branches get along with so little cash? The simple answer is that the tills of our branches are filled with notes which are not money until they are issued, and which, therefore, save just that much idle capital and just that much loss of interest."

Later on I hope you will see more clearly why I regard the branch system as a natural adjunct to a sound bank currency in this country.

Now, as to the great question of bank-note issues. I cannot undertake to discuss the many schemes now before the public. I am naturally more interested in such proposals as those made by the bankers at Baltimore, by Mr. Carlisle, and by some others, avowedly influenced by the Canadian system, and as to the probability of our system being workable in the United States at all. Permit me first to briefly state the distinctive features of the Canadian bank-note issues:

(*a*) They are not secured by the pledge or special deposit with the Government of bonds or other securities, but are simply credit instruments based upon the general assets of the banks issuing them.

(*b*) But in order that they may be not less secure than notes issued against bonds deposited with the Government, they are made a first charge upon the assets.

(*c*) To avoid discount for geographical reasons each bank is obliged to arrange for the redemption of its notes in the commercial centres throughout the Dominion.

(*d*) And, finally, to avoid discount at the moment of the suspension of a bank, either because of delay in payment of note issues by the liquidator or of doubt as to the ultimate payment, each bank is obliged to keep in the hands of the Government a deposit equal to five per cent. on its average circulation, the average being taken from the maximum circulation of each bank in each month of the year. This is called the Bank Circulation Redemption Fund, and should any liquidator

fail to redeem the note of a failed bank, recourse may be had to the entire fund if necessary. As a matter of fact, liquidators almost invariably are able to redeem the note issues as they are presented, but in order that all solvent banks may accept without loss the notes of an insolvent bank, these notes bear six per cent. interest from the date of suspension to the date of the liquidator's announcement that he is ready to redeem.

The Baltimore plan departs from this system in the very important respect that the Government is to actually guarantee the notes. This, in my opinion, is an absolutely fatal objection. The strongest element of security in our issues is the fact that they are subjected to actual daily redemption. They are absolutely good, but it is not in the interest of any bank to pay out the note of any other bank, and consequently the notes of all other banks go into the clearings for redemption, or are returned direct. Therefore, no weak institution dares to issue notes except with due regard to its ability to instantly redeem, and if its business dwindles, its circulation also dwindles. It cannot fly kites with its notes because the punishment is too swift. Let the Government once guarantee on the faith of the insurance fund provided by the banks, and you are paying a direct premium on the issue of dishonest currency. Apart from this, the Baltimore and Carlisle plans are different only in details not worth discussing at this moment. The great difference between these plans and the Canadian system is not in the principles, for these are nearly similar, but in the banks to which they would be applied. Can the franchise intrusted in Canada to a few banks with large capital, branches, and whose proportions are such that they are subject to the vigilant scrutiny of an unusually critical public, be safely intrusted to perhaps several thousand banks, in but few cases large enough to be the objects of any thing but local scrutiny? I will not assert that it could not be done. In fact, I think it could. But this is a doubt so grave in the minds of many, that it is to them conclusive against these plans. But as far as I know, no other plan has been offered which is as effective in the direction of reform, and some plans are merely compromises between this new *theory* and such existing *facts* as the National and State bank systems.

But if the above, or any other principle respecting note issues, were accepted by the majority of bankers, and the ques-

tion of State and Federal powers were harmoniously adjusted so that the system would be uniform, what are the other difficulties?

First. The new system would doubtless have to permit of the contemporary existence of the National Banking System with its present bond-secured notes, at least for a time. No change so radical as to at once destroy the bond-secured notes would be practicable.

Second. If such a great reform as the retirement of the war legal tenders, that part of the National debt which costs no interest, were approved by the people, it would doubtless only be in such a manner as to cause their gradual removal, and while the new bank notes could only fill the gap left by such removal, the new banks should be ready to perform any purely banking functions which the Treasury might in this way be resigning, such as supplying gold for foreign shipments, etc.

Third. The above remarks also apply to the Treasury issues represented by silver dollars or silver bullion. When I turn to the invitation of your President, I find that I am asked to give "A Canadian view of the present financial situation in the United States. What action should be taken, and prospects and probabilities as to what action will be taken." It might be argued that this all refers to the question of the free coinage of silver, for while many of us hoped that we were to be compensated for the sufferings of 1893 by never hearing any further arguments in favour of free coinage, it seems that we were deluded and questions of currency and banking reform do not actually exist as "practical politics" until this question is settled. But if, a very great if,—if we can dispose of the question of free coinage and face the problem of what is to be done with the Bland silver certificates and the Sherman legal tenders, is it not clear that any plan for their retirement must be very gradual indeed?

With all these difficulties it would be strange if anything but compromise measures are effected at first. Too many existing interests have to be convinced, too many selfish sectional views will be pushed forward, and the necessary changes are too radical to be effected without the aid of the great adjuster, time. But with the growth of the State banking associations such as this, as well as some self-assertion by the American Bankers' Association, it is to be hoped that bankers will soon

possess unanimity of opinion as to the reforms they desire, and influence with Congress to put their views into effect. If they are united there can be no doubt about their enormous influence. I say this with knowledge of the frequently expressed opinion that American bankers lack political influence. Individually, perhaps, but collectively and unitedly, I am sure this cannot be true.

And now, if you will permit me, I will outline in a few words the shape which in my opinion the first reforms in banking in this country should assume. I am aware that I was asked to speak about the practical issue of the moment, and I am only advancing a theory—and one which I fear may not even be acceptable to others. But such as it is, it is all that I have to offer.

1. The National Banking System, including the bond-secured notes, and the ten per cent. tax on State-bank issues to continue, with such alterations in details as may be necessary. If the reforms proposed by time were shown to be successful, other measures looking to the extinction of the National Banking System and the ten per cent. tax could be considered when necessary.

2. Any bank with a paid-up capital of $1,000,000 or over, to be allowed to issue notes say to the extent of 75 per cent. of the paid-up capital, secured only by being a prior lien on the assets of the bank, including the double liability of stockholders, and by an insurance fund of say five per cent., and to be free from the ten per cent. tax. Such banks to be allowed to establish branches within the State in which the head office is situated. If the franchise is granted by a State the Federal Government to approve of the regulations securing the note issues, and to hold the insurance fund. I do not enter upon the question of what the minimum paid-up capital should be in the case of banks desiring to avail of such bank issues but not to open branches. I hope, however, it might be practicable to make it as high as $500,000.

3. Any bank with a capital of say $5,000,000 or over, to have the same privileges as to note issues and to be allowed to establish branches throughout the United States, limited, if thought necessary, to cities of national and not local importance. Such a franchise would, I suppose, be granted by the Federal Government. In view of all that has happened since the war,

I presume it would not be too great a stretch of Federal power to grant such a franchise.

4. Banks should have the undoubted power to buy and sell foreign bills of exchange, to issue letters of credit, and perform all the functions usually performed by banks in Great Britain and Canada. In Canada, although we work under a general banking act as the National Banks here do, we act on the theory that we may do anything within the scope of banking which is not expressly prohibited by the Act. In the United States, while a few banks deal in exchange and letters of credit, others think they have not the power.

It may be argued that the necessary legislation to effect such a reform could not be obtained even if the silver difficulty were removed, and that the discussion of such a plan is therefore useless. To this I can only say that the same may be true of any radical reform which is attempted. It may be found that without some years of persistent education of the public by the bankers no comprehensive reform can be put in force. The real question seems to be, would such a change cure or even alleviate some of the present defects? Any change is in the nature of an experiment. If the American banker did not, even to a moderate extent, take advantage of the permission to open branches, accompanied by the privilege to circulate notes not specially secured, then such a reform would partly fail of the desired result. I can imagine nothing in banking so attractive as a bank with say $10,000,000 of capital, a head office in New York, and branches in such cities as Boston, Philadelphia, Buffalo, Pittsburg, Chicago, Minneapolis, Duluth, Cincinnati, St. Louis, Kansas City, Omaha, San Francisco, Galveston, New Orleans, Atlanta and others of similar importance, gathering deposits everywhere, lending only on the choicest mercantile paper, the leading staples of commerce, and the best bond and stock securities, possessing powerful alliances with foreign banks enabling it to buy and sell foreign exchange and issue letters of credit on all countries—able indeed, to perform the whole round of functions performed by the great banks of Europe. If the Bank of Montreal can lend ten millions safely in Chicago through an agency, cannot a bank with headquarters in New York do it? If it is safe for hundreds of New England banks to fill their wallets with the paper and securities arising from grain, flour and other busi-

ness in Illinois and Minnesota, purchased through note brokers, or by re-discounting for western banks, could not branches of Eastern banks do such a business better? And in times of trouble, would not the existence of several such banks, and of many other powerful banks with branches restricted to sections of the United States, be a source of financial strength sufficient to set the pace of courage to the smaller banks, and to the whole mercantile community?

But opening branches is, of course, only an option in the plan I suggest and is not compulsory. If American bankers did not take kindly to the branch system, there would still remain the fact that the amalgamation of smaller banks into banks with at least the capital of $1,000,000 would be necessary in order to avail of the privilege of issuing bank-notes not secured by Government bonds. This would ensure the number exercising the privilege not being too great to permit active scrutiny by Federal and State authorities and the general public; it would render the actual redemption of notes by the issuing banks, which is so necessary to elasticity and safety, infinitely easier than if the banks exercising the privilege were numbered by the thousands; and it would tend to lessen the present enormous difference in average size between the American banks and those of other countries.

If it is admitted that large banks with branches would effect a better distribution of loanable capital, and that large banks, with or without branches, would make note issues, of the character suggested by the Baltimore plan, more practicable and safe than if issued by small banks, there remains the question as to whether the functions now performed by the Treasury, such as supplying gold for foreign shipment or other purposes, would be taken up readily by such banks when the Treasury is relieved from them. As long as the volume of Treasury notes redeemable in coin is measured by hundreds of millions, the New York banks will doubtless cause the Treasury to supply all gold needed for foreign shipment, but sooner or later the duty will fall mainly on these banks. It may well be said that the New York city bankers have shown such high ability and fertility of resource that we may be sure they will be able to establish the machinery for such a purpose, but I have to submit that many of the enormous difficulties which the New York city bankers have had to meet have been due to the

lack of individual power and the necessity, when creating strength by the co-operation of the many, of the strong carrying the weak. A system which would create in New York institutions, to any one of which the supplying of a few millions of gold for export, and the replenishing of its reserves through its branches and alliances with large country banks, would be an easy matter, would surely be better than the present. My suggestions end here, and I must thank you for listening to my views, whether you regard them as worthy of further consideration, or as one of the now countless plans offered in this country of free speech for the reform of the great national problem of finance. The excuse for these countless plans is that Congress does nothing, while the problem transcends all others in importance. I find in a pamphlet on American finances, written in 1874, a quotation from a French writer, offered then because of its applicability to America, and equally applicable now; with it I will close:

"The French finances connect themselves, on all sides, with all our past and present history; with all our history, monarchial and republican, political and religious, economic and social; with all our victories as well as our disasters, with all the aspects and all the progress of our administration, with all the conquests of our industry, of our agriculture and our commerce, with all the achievements of our art; in a word, with all the epochs which have made famous the name of France. For it must be said, and said whatever men may think of it, *that the finances touch everything, help everything, conclude everything.* They are in the state what blood is in the veins of the human boy; if it circulates, it carries along with it motion and life, if it stops paralysis and death supervene. Good organization, good administration, a good condition of the finances, exert, therefore, imperiously everywhere and always, a positive, healthful and vivifying action upon the government of a country and the prosperity of its people."

BANK OF JAPAN.

Address of Governor Matsuo, delivered at the Semi-Annual Meeting of Shareholders on February 18th, 1905.

Gentlemen:—

In laying before you the business report of the bank for the 37th year of Meiji, I desire to submit for your consideration the cardinal facts relating to economic conditions and to the bank's transactions during the year.

The year 1904 witnessed an extraordinary situation and an exceedingly eventful time in our economic affairs. Nevertheless, confidence remained essentially unshaken, and the money-market, as a rule, preserved a quiet character. Since the preceding year the course of foreign affairs had given rise to a feeling of caution in our business circles, so that no very conspicuous effects seem to have been experienced from the war which finally broke out in February last. Nevertheless, in consequence of the transport of war materials, communications by land and sea suffered some inconvenience, and certain vicissitudes were witnessed in connection with the transition of trade and industry from pacific to belligerent conditions. In the share market the rupture of diplomatic relations was accompanied by a momentary fall in quotations, but the victories won by our army and navy at once restored prices. The celerity of action on the part of our fleet obtained for us the command of the sea from an early period, and the security thus conferred on maritime communication virtually guaranteed to commerce a continuance of normal conditions. Among the people, too, from the moment of the outbreak of hostilities there was widely displayed a most laudable disposition to practise economy and saving, so that the deposits in the postal savings banks as well as in other banks showed a notable increase; loans previously made by the banks began to return largely, and the money market continued in a tranquil state. Moreover, from the spring of the year, eminently favourable climatic conditions resulted in plentiful yields of all agricultural products, and further, sericulture was

very successful, so that the exports of raw silk and *habutaye* reached extraordinary dimensions. The rice crop especially was so abundant that it is expected to exceed the average by eight or nine million koku. All these things were so many factors co-operating to augment the nation's resources, and thus, although the volume of Exchequer Bonds issued during the year attained the great total of 280,000,000 yen, the subscriptions on each occasion exceeded by many times the sums to be allotted, and the installments seem to have been paid with the greatest regularity. In fine, although the year closed upon a fairly busy state of the money market — as is indeed the case every fall—the opening of the new year at once brought back a large part of the accommodation then granted.

Such being the condition of the money market, the loans of this bank also showed no special change, with the exception of a certain increase of foreign bills discounted. Only, as the war progressed, the advances of the Bank of the Government tended to grow to such an extent that at times there was ground to apprehend that the note issues might attain too large dimensions. In view of this contingency the bank twice increased its rate of interest, once in July and once in December; inasmuch as although the amount of notes issued stood at about 188,000,000 yen in April and May, it thenceforth kept steadily increasing month by month, until, at the close of December, it reached more than 286,000,000 yen. It is to be regarded as inevitable that in time of war the demand for circulating media should be greater than in time of peace, and when we further take into account the fact that among the notes issued, those transmitted to Manchuria and Korea last year amounted to some 30,000,000 yen, it would seem that the volume of paper now in circulation in this country does not notably exceed the figure for a normal year.

As for our foreign trade, we find that in the year under review exports exceeded 319,260,000 yen and imports 371,290,000 yen, making a total of 690,550,000 yen, which figures, compared with those for the preceding year, show increases of over 29,750,000 yen in exports and 54,150,000 yen in imports. The main item of increase in the case of imports were raw cotten, rice, wool, kerosene oil, leather and ships; which may be regarded as a natural result of the demand for foreign commodities in time of war; and on the side of exports, raw

silk, *habutaye,* silk handkerchiefs, matches and straw-braid. This growth of the export and import trades, in spite of the existence of a state of war, was due to the circumstance that, while the commerce with China and other Far-Eastern countries did not undergo any check whatever on account of belligerent conditions, the prosperous state of the American market created a large demand for our commodities. It also bears witness to the fact that, at home, the people remained undisturbed while the war was going on, pursuing diligently their productive enterprises.

Turning now to the movement of specie, we find that the imports were over 33,940,000 yen and the exports 107,790,000 yen. It being of course inevitable that in time of war hard-money payments to foreign countries should increase, the Government had created a fund in specie to be used in case of emergency. But in a situation like the present much must necessarily depend on the specie reserve of the Central Bank. Therefore, at the outset of the complication, the Government, with the object of strengthening the basis of our system of convertible currency, formed a plan for floating a foreign loan. For that purpose the Vice-Governor of the bank was specially despatched to London, and on two occasions bonds to the total amount of 22,000,000 pounds sterling were placed in the English and American markets. At the close of the year the bank held a specie reserve of over 83,000,000 yen, and further had more than 84,000,000 yen to receive from the foreign loans, thus enabling us to keep our currency on a firm foundation, which is a matter of national congratulation.

With reference to the transactions of the bank itself, few things call for special report. There is, however, one point which deserves to be remembered in connection with our finances, namely, that by Law VIII. of 1896 and Law VI. of 1898, the period of exchanging the notes of the National Banks and also those of the Treasury expired in December, 1904, and the exchange having been then completed, absolute uniformity was secured in the State's paper currency.

Such were the economic conditions during the period under review. More than a year has elapsed since war broke out, and the expenditures have reached a very large figure. Nevertheless the nation has well supported the burden. There has not been any violent economic vicissitude, and we have been able to

maintain our progress in productive enterprise. This is due to the solidity of the people's resources and to their patriotic spirit; and also it should be remembered that our system of convertible currency has contributed in no small degree to this happy result.

To what future period the war may continue it is impossible to form any estimate. But our economic circles have already adapted their attitude to the belligerent situation and our industries are moving on in response to its demands. The experiences garnered make it clear that our forces may prosecute the struggle without anxiety as to ways and means. I believe that hereafter the whole nation, with ever united strength and fortitude, will continue to develop a spirit of endurance, and, each contributing his share, will help to promote the attainment of the cardinal policy of the State. I, on my part, propose to conduct the affairs of the bank in accordance with that aim, and I have pleasure, gentlemen, in conveying to you this assurance.

WHY BANKS GO BACKWARD.

In looking over the statements of some banks in New York City—and elsewhere as well—the observing reader has probably been impressed with the failure of more than one institution to advance materially in totals. Deposits fluctuate little if any, changes being on the decreasing side if at all; the book value of the stock, as represented in capital and surplus, remains at a fixed mark, and the bank gives every indication of drifting along the current of business in an aimless or helpless fashion, like an idler in the world's work. We concede the fact that all banks cannot be first in the race, that a considerable portion of them must be content to remain comparatively outclassed, but it does not follow that this implies a stoppage in growth extending in some instances to a state of semi-paralysis or decay. There are few cities in this country going backward either in population or wealth, but there are many banks retrogading, not primarily because of untoward or unavoidable losses, but simply because the right spirit does not animate the management. Of course if the stockholders are content, it is not particularly within the province of anybody else to object, but in the majority of instances the stockholders are not content, but simply neglect to get together for the purpose of working reforms. The officers as a rule, in banks where such conditions exist, have lost the ambition which they should possess, and are content to let matters drift. As long as dividends can be paid by scrimping from quarter to quarter, as long as comfortable salaries can be drawn, why should there be occasion to make more work, or push after more business? Thus matters run along from year to year; a state bank comes along and establishes a branch in the neighbourhood, a trust company opens for business near by, and eventually the old-fashioned bank—old-fashioned in the sense that it never awoke—finds that its rivals have taken much of the business which it should have controlled from the first.

How long will it take some bankers to realize that in these modern times the institution which does not advance is retro-

grading? How long before they appreciate the fact that every dollar which they lose in the way of old business, or new business which should have been theirs, reflects directly on the management?

In these days of strenuous competition the dictionary defination of the word banker must be revised. The banker of to-day, in order to succeed, has to combine the technical education of his predecessor with the business spirit of the age. He cannot sit down and wait for business to come to him. He must go after it. If he doesn't, it is diverted to his more enterprising neighbour. This truth is usually combatted by the man who does not like hard work; but the spectacle of energetic and successful institutions which are growing up under the noses of older banks in any city is the best proof of the argument. The old days are gone. Banking may be a profession, but above that it is a business which requires constant attention and devotion, and the man who is unwilling to concede the fact will find himself relegated to the rear at no distant day.—("The Financier," New York.)

THE SUCCESSFUL BANK-CLERK.

Whether it be for power, possessions, or position, or simply to win, ambition leads men to strive toward a certain goal, which goal is Success.

Success in any calling is synonymous with careful research, intelligent application, and unfailing fortitude, resolution and reserve.

The maxims of success for a banker are in principle very similar to those for a business man, and are as well known, but the ordinary routine, at times irksome in the monotony of its daily reappearance, leads men to become lethargic, trusting, no doubt, to their star, and forgetting that the star never shines so brightly as when they look to themselves and shape their course in the path of prudence and integrity.

A young man, entering on life as a banker, "puts in an apprenticeship" as truly as the cabinet-maker, who works on precious woods. An error is costly. He has to learn *care*—to gain *confidence*. In his work he must be *accurate*, always *ready and willing* to assume duties. These may fall heavily on him at times, but accuracy and system will relieve the strain.

These qualities, then, *care or accuracy, confidence,* and *readiness to work* will ensure him a rise in his position, but he cannot become a manager immediately. He must still grow. He comes to feel a *respect* for men of mental weight, and gathers *tact* enough to show respect for those, upon whom the bank's success depends; for that is business.

He has always, of course, been careful of his appearance. Now that he is meeting the public more than at first, he needs this quality. People must respect him. They will do so more readily, seeing that he respects himself.

Now he must lay foundations for *prudence* and *principle*, two very necessary qualities in a manager. He need not follow unswervingly the policy of one strong banker, but rather choose a true, strong course for himself, guided by the experiences of many men in times of pressure, and by their advice as to the conduct of a regular banking business.

He must learn to *adhere to a principle.* Firmness will often save the day. If a customer sees a teller hesitate about charging a certain rate of exchange, he is in doubt as to whether it is proper that he should be charged at all. In the same way, if the customer, wishing a loan on some inconvertible security, sees a manager weighing the gain against a possible banking principle, he is the more offended if he be finally refused. Therefore, too, the clerk must practice *rapidity of decision,* holding in the main firmly to his principles.

These are the necessary good qualities. Having these implies that many other traits shall not exist. He cannot be respected if he be not manly, or if he be greedy, or if there be faults in his private living. A business man will not put his honour and credit in the care of a man of frivolous living or loquacious turn.

The young man should not look forward to a banking life of great profit regardless of the good of his customers; that is a speculation; his profits will never be sure. He should rather look forward to a life of usefulness, to be a man on whom a business-man may rely for the best of advice in any emergency. Such a banker need fear little competition.

Returning to the early life of the banker—to the time when entering on the heavier duties in an office, he begins to aspire to higher things—it would be well to give a word of warning. The young man of ambition is apt to let himself be carried away from the position he occupies to the position he wishes to occupy. He is apt to fret at delay, and grow impatient, gradually losing the hold he has on his future. Many young men are ruined this way. He must learn to fit himself for the future, but to live in the present.

He must be *regular* in his business habits, practising punctuality especially. He must be accurate. These qualities will help him to speed in the accomplishing of his daily routine, leaving him leisure for inquiry, and fitting him for stronger positions.

It has been shown how he may first gain a sure recognition. When he has gained that, he must remember that every good quality that he has, either inherited or acquired, is a piece in his favour on life's chessboard, while every wrong trait is an incalculable gain for his competitors.

CHARLES F. MILLAR.

STIRRING UP BANK DIRECTORS.

The following clipping from the *Bankers' Magazine* (N.Y.) may be of interest to the directors of banks in other countries than the United States:—

A new policy, destined to bring a fuller and better realization to directors in National banks, has been adopted by the Comptroller of the Currency, who believes from the reports of examiners that there is not a full realization by directors of banks as to their liability under the law.

In the courts when it has been pointed out that directors are liable because of their connection with institutions which have failed or have been mismanaged, directors claim ignorance of the transactions and disclaim knowledge of their responsibility under the law. With a view to changing this, the Comptroller, instead of addressing letters of complaint to the officers of the banks, such as the President or Cashier, has ordered that letters be addressed to the directors as a body, and has required that all members of the directory shall append their signatures to the replies. The character of the letters varies. They are usually based upon a report from a special examiner and refer to overdrafts, to loans to Cashiers or a coterie of bank officers, or to bad or excessive loans.

The action of the Comptroller has had the effect of stirring up many directors, who, unaccustomed to getting such letters, have feared that something is radically wrong with the banks with which they are associated. The letters do not necessarily so indicate, but they make clear the intention of the Comptroller to end the repeated pleas of ignorance of the condition of the institutions to which men lend their names as directors. It will not be long before such a plea will be met with letters from the private files of the Comptroller's office, showing that they stated a knowledge of conditions when called upon to do so over their signature.

QUESTIONS UPON POINTS OF PRACTICAL INTEREST.

REPLIES may be obtained through this column to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

The questions received since the last issue of the JOURNAL are appended, together with the answers.

Liability of Endorsers on Note.

QUESTION 605.—A bank discounts a note of $100.00 signed by Thos. Smith, and payable to the order of John and James Brown, and endorsed by John and James Brown. Has the bank redress against each endorser for the full amount of the note or can they only collect $50.00 from each endorser?

ANSWER.—The liability of the endorsers is joint and several.

Cheque—Delay in Presentation for Payment.

QUESTION 606.—John Smith presents a cheque which reads as follows and receives the cash:—

Buffalo.....

Firm's name.

At the Bank,
New York,

Pay to J. Smith or order,
the sum of.....

Firm's signature.

To Bank,
Buffalo.

The banker sends cheque through New York, taking probably a week before it finally reaches Buffalo. When presented for payment it is refused, firm having failed. If it had been sent direct to Buffalo, taking two days for presentation, it would have been paid, firm being solvent. Can J. Smith be held as endorser in the first case?

ANSWER.—If the cheque was explicitly drawn upon a bank in Buffalo, and was not presented there for payment within a reasonable time, as appears to have been the case in this instance, the endorser could set up a strong plea that he was exonerated from the consequence of the undue delay.

QUESTION 608.—Would not a bank presenting a demand bill of exchange demand payment, not acceptance, and if this bill carried "no protest for non-accceptance" instructions, would the bank be carrying out instructions if thy protested when the drawee refused to accept?

ANSWER.—"No protest for non-acceptance" instructions on a demand draft is an obvious absurdity. Such a draft should be presented for payment and protested if not paid.

Acceptance—Irregularity in Bill Removed by Acceptors.

QUESTION 609.—A draft for $50, dated New York, say 4th February, and drawn at sight is accepted simply thus:

"Accepted
John Smith."

Now John Smith resides in New Brunswick, and drawers sent draft through their bankers for collection. The local bank presented draft to acceptor about 15th February, who was not ready just then, and wished the draft sent back. The draft was for protest, but the question arose, was it due, and if so, was it not payable in New York? John Smith had really accepted the draft with a number of others of the same tenor, in Boston, in an Agent's office, on a date previous to February 4th.

The local bank got acceptor to date his acceptance on the 15th February, time of presentation to him, returning the bill to New York free.

Did the collecting bank do right? If not what course should they have followed?

It was clearly the acceptor's intention to have the bill mature on 7th February in New Brunswick.

ANSWER.—The acceptor removed the irregularity of the bill by dating his acceptance of it, and the bank in having him do so assumed the sequent responsibility of having it protested at maturity if unpaid.

Collateral Notes held by Bank.

QUESTION 610.—A customer leaves some notes with us, upon which he gets an advance for a certain amount. A creditor of this customer obtains from him an assignment of book debts, and files a copy of the same with us, claiming that they are entitled to the equity in the notes which we hold. As a matter of fact they are entitled to this equity? When the notes are collected and our claim paid should we pay the balance into court, or would it be safe to hand this balance to the customer notwithstanding notice of assignment of book debts?

ANSWER.—A mere assignment of book debts could not affect notes lodged in a Bank as collateral security against advances, nor in itself give a valid claim to any equity in the notes.

Should, however, there be rival claimants for the equity, the simplest course would be to pay the money into Court for adjudication.

Railway Bill of Lading—Conditions determine Liability.

QUESTION 611.—A Railway company undertakes to transport a shipment of lumber from A. to B., giving their usual bill of lading for the same. Does their liability as against loss by fire or otherwise cease when the car holding the lumber reaches B., or does it cease when the company has notified the proper party of the arrival, or does it continue until delivery has been taken?

ANSWER.—It would depend largely upon the bill of lading. For that reason no set rule could be given.

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EDITORIAL NOTES

Bank Inspectors versus Bank Examiners

In the January number of the Journal, the opinion was expressed editorially that there are bank inspectors in the United States who do not inspect. Incidentally we added:—"It is not surprising to find that opinion in the neighbouring republic is being expressed in favour of asking the Controller of the Currency to explain why bank examiners have apparently failed to ascertain the condition of the large number of national banks which have collapsed within the last year *before* instead of *after* the said banks were compelled to close their doors.

Some critics of the condition of things even go so far as to hint that the examinations are not as thorough and searching as they should be, and that the bank examiners, although not as a rule political appointees, are sometimes regarded as such.

There may be cause for this outburst against the bank examiners, but many Canadian bankers can personally testify to the high character and great ability of many of the American bank examiners.

If there is a lesson in the Chadwick case for bankers, bank examiners, and the American public generally, there is also one for our own people—to adhere to the system which has given to this Dominion the services of men, who, by reason of years of experience, careful training, and accurate knowledge of the business of our banks, are so eminently fitted for the important work of periodically inspecting their affairs, and making independent and fearless reports thereon. Without having any desire to meddle in matters which concern us not, and without wishing to express an opinion upon the merits or demerits of the American bank examiner, we may certainly pride ourselves upon the possession of the Canadian bank inspector. His duties are not always of the most agreeable character; his position entails much discomfort, and occasional exposure to hardship and danger; but he must find comfort when reflecting upon the value of the knowledge he obtains of the business of the country, and incidentally of the worth of men serving the bank he represents. The best testimony of the thoroughness of the examinations made by the inspectors of Canadian chartered banks is to be found in the accurate knowledge of affairs possessed by the general managers of our banks, and the very limited number of institutions wrecked since the passage of the present Canada Bank Act."

In support of these comments made by the Journal six months ago, we now reproduce a paper written by Mr. Joseph Chapman, Jr., upon "Bank Examinations in the United States." Mr. Chapman evidently has courage and knows whereof he writes. His address to the bankers of Dakota was couched in the language of truth, and ought to bring about some measure of reform.

Mr. Chapman may rest assured that his Canadian brethren will support him in thinking that there is something ridiculous indeed in the idea of seventy-five men making 11,174 inspections of banks in one year.

His remarks upon the duties of directors will also be read with much interest at the present time by the directors and the leading officials of Canadian banks.

With the restoration of peace in the East, a commercial and industrial boom is looked for. The expenses of the war must be made up by increased activity in industrial enterprises, and for that purpose the Japanese will want many things, including machinery and raw materials from other countries. Our American friends are already contemplating the effect upon their commercial interests of the ending of the war.

A Chance for Canada.

The utterances of the Japanese Consul-General at New York are deserving of respectful consideration, especially when his words bear on the probable trend of trade when peace with Russia is declared. At a recent dinner of the Business Science Club, Consul-General Uchida pointed out that, despite the war, Japan has never been more prosperous in its foreign commerce. He is said to have sententiously remarked, in the course of his speech, that, during the last forty years, Japan had been studying Western civilization, and adopting the best things that her experts had observed—the German system for the army, and the English method for the navy. He is also reported to have remarked that the Japanese intend to develop the American ways of making money.

Canadians are similarly interested in the affairs of Japan, and our bankers and business men ought to see to it that, among the imports to the Orient during the next decade, there will be found a fair share of Canadian merchandise.

There is no sign of convergency in the banking systems of Canada and the United States.

Very few of the bank charters obtained at Ottawa during the past year have been made use of, and the Minister of Finance has lots of supporters of his expressed opinion as to the absence of any necessity for creating any new banks at the present time. In the United States, on the contrary, new national banks have come into existence at the rate of one a day for the last two years.

New Banks.

The effects of contiguity, it would seem, completely offset any special tariff advantages in favour of Great Britain as opposed to the United States.

Our Trade With the United States.

It is already claimed that the present fiscal year will break all records in the volume of our trade with our Southern neighbours. Figures issued by the Department of Commerce show that for the ten months ending with April last, Canada has received products from the United States valued at about $115,000,000. Figures for the fiscal year, which ended with June, are not at hand, but the prospects point to an aggregate importation of $140,000,000.

The address delivered by Mr. Edgar Speyer upon "Some Aspects of National Finance" to the members of the Institute of Bankers in London, England, contained some words of warning for others than the people of Great Britain.

Municipal Extravagance

Mr. Speyer is of opinion that the root of all financial troubles in England, and one of the main reasons for the apparent excess of imports over exports is general extravagance—financial, municipal and individual; that all-round retrenchment is necessary, even if it should be brought about by the stress of hard times. The well-known banker admits that the condition of financial affairs in Great Britain has improved during the past year, but he claims that the fact of general extravagance still exists, and he lays particular emphasis on the extravagance of municipalities. Mr. Speyer contends that there is little, if any, defence for the enormous increase in municipal expenditure. There are municipalities, even in Canada, where the growth of municipal expenditure of late years has been large enough to merit the most careful consideration of the people of this Dominion.

We reprint, by request of several subscribers, an article published in the JOURNAL in 1894, written by Mr. Thos. Fyshe, who has recently retired from the field of active banking.

The Growth of Corporations.

Perusal of Mr. Fyshe's paper, dealing as it does with a subject engaging the close attention of Canadian bankers, cannot fail to prove peculiarly interesting. The common bias of the mind undoubtedly is to think favourably of the future; to overvalue the chances

of possible good, and to underrate the risks of possible evil, and in the case of some fortunate individuals this disposition remains after a thousand disappointments. Mr. Fyshe's article upon The Growth of Coroprations shows that, like so many successful bankers, he is not given to underrating the risks of possible evil.

Among the many good qualities for which Mr. Fyshe is held in high esteem by his friends, is his sound judgment, and close adherence to the lines of duty. His views upon any subject in connection with banking are well worthy of the close attention they have always received, and at the present time there is singular interest attaching to the following statement made by him in 1894:—"There is a great waste in having a number of comparatively small competing institutions doing the work which could be done much more effectively and economically by one or two; and, while this is true of all industries, it is pre-eminently true of banking."

In the article under review, which was referred to editorially at the time of its publication as "a brilliant paper," Mr. Fyshe, it will be observed, expressed the following opinion:—"It is quite as much in the interest of the bank employes as in that of the general public that there should be only large and strong banks; consequently, every bank officer who realizes the drift of things will further any movement which has for its object the lessening of the number of banks in the country—by amalgamation or otherwise."

If all the year were playing holidays,
To sport would be as tedious as to work;
But when they seldom come, they wish'd for come,
And nothing pleaseth but rare accidents.

Shakespeare.

Valedictory.

No man is happier than he who loves and fulfils that particular work for the world which falls to his share. So is it that no man so thoroughly enjoys a vacation than he who has deserved one. The workers in banks deserve and appreciate holidays, and so do the contributors to the Canadian Bankers' Journal, the Journal Questions Committee and the tired editor.

Our readers are asked to let this valediction to Volume 12 of the Journal serve as an excuse for the absence of much matter. Refreshed by sight, sound and smell of the sea, it

is hoped that those responsible for the production of this magazine may return to work determined to add to its reputation and popularity.

During the year we have had a few communications from junior bank officials, calling attention to what they believe to be grievances. Refusal to give publicity to their troubles in the correspondence columns of the Journal has been solely due to a desire to prevent the growth of unreasonable discontent. We recommend to grumblers one of the many beautiful prayers by Robert Louis Stevenson, who wrote his own affecting epitaph, carved on a stone on the South Sea Island hill that he chose for his burying place. Occasional perusal of the following prayer ought to inspire cheerfulness, even in a Mrs. Gummidge:—

"The day returns and brings us the petty round of irritating concerns and duties.

"Help us to play the man, help us to perform them with laughter and kind faces; let cheerfulness abound with industry.

"Give us to go blithely on our business all this day, bring us to our resting beds weary and content and undishonored, and grant us in the end the gift of sleep. Amen." J. T. P. K.

Mr. James M. Beck, in his scholarly article on Moneyphobia, published in the Financier (N.Y.) on July 17th, says: "We hear in these days of many defalcations and breaches of trust, but we must remember that the means of publicity are a thousandfold greater than ever before, and that the opportunities for such recreancy are a thousand fold greater than in any other age. There are more faithless bank clerks because there are more bank clerks, but how few are the faithless in comparison with the faithful! Nor need we fear the final test as to whether commercialism deadens that spirit of true chivalry, which is faithful to a noble ideal, "even unto death." The four great commercial nations of our time are England, the United States, Germany and Japan. Within the present generation each has engaged in a mortal struggle, and each has shown that the finest soldiers may be recruited from the counting room and shop, and from the field and farm."

THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

THE FIRST GENERAL BANK ACT FOR THE DOMINION.*

*Chief sources:—
Journals of the House of Commons of the Dominion of Canada, 1869-1871.
Statutes of Canada, 1867-1871.
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Our Canadian banking and currency system as it stands to-day, being so largely the product of a series of practical situations, occasionally approximating to crises, and so little the result of a systematically devised plan, must always be regarded in the light of the various stages of its historical growth. It was not that theoretic considerations were ever lost sight of, or voluntarily sacrificed, but simply that circumstances prevented more symmetrical or systematic measures from being carried out. Only when these circumstances are understood can the practical measures from time to time proposed and the criticisms to which they were subjected be adequately appreciated.

As we have already seen, it was to the lot of Sir Francis Hincks more than to that of any other man that there fell the task of shaping, if not of originating the various measures which express the transition stages in the development of Canadian banking and currency. Yet, as he frequently confessed at different stages in that development, he had never found himself free to give to the Canadian system the full and logical expression of the principles upon which he had proceeded, as far as was practicable, in the framing of each measure in the series, down to the Acts of 1870 and 1871, which left our system, as a system, practically where it is to-day.

Sir Francis Hincks was always a strong advocate of employing the national credit as the basis of the circulating medium

of the country, including the issues of the banks. His convictions on this subject were quite independent of any incidental advantage to the Government in securing what was largely a free loan from the public. Nevertheless, at every stage in the development of the present system of Dominion notes, not the merits of the system as a security for the paper currency of the country, but the pressing need of the Government for something very like a forced loan from the people, was the occasion of each new extension of the system. In the light of these disturbing facts must be regarded much of the criticism offered by those who strenuously opposed what appeared to them, and indeed too often was, a very doubtful policy for a young country. The rapidly expanding revenue and the enhanced national credit of recent years have rendered the present generation oblivious of past dangers.

We have traced the various systematic efforts to realize the idea of a government issue of paper money, from Lord Sydenham's scheme for a Provincial Bank of Issue down through the Free Banking measures to the latest attempts of Galt and Rose. We have followed the practical introduction of a government paper currency through the limited issues of small government debentures, designed ostensibly to furnish the banks with convenient reserves but really to relieve the Government from pressing financial embarrassment. We have dealt with Galt's compromise measure of 1866, framed, as usual, under stress of financial difficulties, but accepted by the Bank of Montreal alone, which indeed, as the Government bank, had little option in the matter. The details, however, of the terms which the Bank of Montreal managed to exact from the Government while at a disadvantage were of a very special nature and, incidentally, very profitable to the bank, but in like proportion fatal to its good relations with the other banks.

Ultimately, however, the other banks, whose charters would expire in 1871, had to be dealt with. This Mr. Rose attempted to do on the American model in 1869. But his measure, as we have seen, encountered the strenuous opposition of the leading Canadian banks, prompted alike by self interest and jealousy of anything suggested by Mr. King of the Bank of Montreal, who was Mr. Rose's chief adviser. Finding the opposition so strong, Mr. Rose abandoned the measure, and immediately afterwards the Government and the country.

At this juncture Sir Francis Hincks, after an absence of fifteen years as Governor of Barbadoes and British Guiana, visited Canada. He was received with joy and fêted on every hand as a particularly distinguished countryman. His ability as a financier being well remembered, his old enemy, Sir John Macdonald, being in sore need of a finance minister of unusual ability in matters of banking and currency—the very specialties of Hincks in days gone by—urged him to join his Cabinet and undertake the important task of devising a scheme of currency and banking which could be got through Parliament.

The problem which Sir Francis Hincks undertook to solve was one of unusual complexity. Every phase of the currency and banking of the country was in an unsettled, or even critical condition. The former confidence of the Canadian people in their banks had been greatly shaken as the result of the two important failures of the Upper Canada and Commercial banks and the uncertain condition of several others, especially the Royal Canadian and Gore banks. This uncertainty was emphasized by the jealousy and bad feeling which had been developed between the Bank of Montreal and a number of the other banks, especially those in Ontario. This, again, was largely owing to the special relations in which the Bank of Montreal stood to the Government and the consequent powers which it exercised. Uncertainty as to the future policy of the Government with reference to its note issue was also a disturbing factor. At the same time the commercial centres of Ontario and Quebec were flooded with American silver, itself the expression of what is so eagerly desired by nations, namely, a highly favourable balance of trade. The merchants engaged in this trade were loath to see it injured simply because the Americans were so unfortunate as to have nothing more acceptable than money with which to make their payments for Canadian produce. Again, owing to Confederation, the Provinces of Nova Scotia and New Brunswick brought several new and disturbing features into the currency and banking problems of the Dominion. Not the least troublesome of these, from the political point of view at least, was the fact that the two eastern provinces were at sharp variance with reference to the currency standard. New Brunswick was most anxious to secure the immediate enforcement of a uniform currency throughout the Dominion, while Nova Scotia, headed by the commercial and

financial interests of Halifax, and having a different currency and standard of value from the rest of the Dominion, was much opposed to any immediate change. Certain proposals for an international currency, which would be more in accordance with the Nova Scotia standard than that of Canada, were just then under consideration by France, Britain and the United States, and led the people of Nova Scotia to indulge the hope that the rest of the Dominion might be induced to adopt their standard. The question of the savings banks had also to be dealt with, while a strong reactionary demand, especially from Quebec, for a restoration of the usury laws added a new element of discord to a situation already more than sufficiently disturbed. Altogether one can hardly imagine a more complex and difficult task than that which Sir Francis Hincks had to face when, in the latter part of 1869, he accepted the position of Finance Minister.

Having once accepted the commission, he set to work at his problem with characteristic energy, shrewdness and self-confidence. Profiting by the experience of his predecessors, he saw that the first requisite was to come to some definite understanding with the leading bankers of the country. He also recognized that a spirit of compromise must be promoted if so many varying interests were to be harmonized, and a general policy evolved which would at once afford a reasonably safe and workable system of currency and banking, be accepted by the bankers as a body, and command a majority in Parliament.

The testimony of the bankers, as furnished to the Special Committee on Banking and Currency at the previous session of Parliament, and the excitement attending the discussion of the Hon. John Rose's measure, revealed the fact that the bankers of Ontario in particular, while recognizing the necessity for added safeguards for both note holders and depositors, strongly objected to the proposed interference with the note issues of the banks. Sir Francis Hincks availed himself of every considerable reform suggested or sanctioned by the bankers in their replies to the inquiries of the Special Committee on Banking, or in their more recent conferences with Sir Francis himself. At the same time, he sought to draw them as far as possible in the direction of accepting a considerable issue of government notes.

As a special inducement, which counted for much though it cost but little, Sir Francis promised to terminate, on the six months' notice required, the existing exclusive arrangement with

the Bank of Montreal, and to employ any or all of the banks in the receipt and payment of Government funds, as purchasers of Government exchange, or as custodians of the Government deposits.

As the result of his industry and diplomacy, before the opening of Parliament in February, 1870, Sir Francis Hincks had framed two measures providing for a general banking policy for the whole Dominion, and a definite and independent system of government paper currency or Dominion notes. He had also managed to gain the general consent of the banks to these measures. The result was that, while they met with strenuous party opposition and continuous efforts were made to stir up the country against them, as in the case of the previous measures of Galt and Rose, the agitation, both within and without Parliament, utterly failed, and Sir Francis carried his bills with substantial majorities.

These measures did not, it is true, express all that Sir Francis Hincks himself would have liked to see embodied in them, and on the other hand they included much more than many bankers cared to accept, though they felt that in opposing his measures they were only likely to go further and fare worse.

In making a preliminary explanation of his whole scheme in the House of Commons, on March 1st, Sir Francis Hincks bespoke for the important matters involved a non-partizan treatment. He referred to the critical stage which the country had reached as regards its financial policy and the necessity for dealing with the whole subject on a broad and permanent basis. A large number of bank charters in Ontario and Quebec would expire in 1871, and must be dealt with immediately. The banks of the Provinces of Nova Scotia and New Brunswick differed in several important respects from those of Canada, and from one another. It was as essential, however, that there should be one currency, as that there should be one fiscal system for the whole Dominion; and now they were unavoidably called upon to determine what that system should be.

The subject admitted of honest differences of view, and varied financial experiences in different sections of the country naturally tended to emphasize those differences. On one point, however, in view of recent experiences, there could be but little room for doubt, and that was the necessity for a greater security for note holders. As to his own views, he still believed in the

plan of a government bank of issue, such as Lord Sydenham had brought forward thirty years ago, and which at that time he had strongly supported. Consequently he sympathized with much in the measures advocated by his predecessors, Messrs. Galt and Rose. But it was evident that the country was not even yet fully educated up to such a system. The chief objection in 1841 arose from the practical difficulties incidental to the transition from a paper currency furnished by the banks to one furnished by the Government. The same difficulty was felt as strongly now as it had been then. The fact that only one bank took advantage of Mr. Galt's measure for a provincial note issue in 1866, destroyed the general character of the system, and produced an abnormal contrast between that bank and the others. It was essential that all banks should be on the same footing with reference to the Govenment and its note issue.

In this connection it was necessary to consider how it was possible, in extending the charters of the banks, to give adequate protection to the note holders. Some were inclined to think it sufficient to give the note holders a preference over the depositors. But Sir Francis pointed out that, under the newer conditions of banking, in times of crisis the banks were in greater danger from depositors than from note holders. If, then, note holders were to have a preference, those depositors having special information as to the condition of a bank would simply convert their claims into notes. His own idea was that the safest plan would be to have the whole of the note issue based upon government securities. But, as that was not at present practicable, he desired to have at least the smaller notes, which constitute the greater part of the circulation in the hands of the common people, based on the public credit.

As to the possibility of establishing a bank note currency of perfectly uniform value throughout the Dominion, such as was aimed at by the Hon. Mr. Rose in his measure of last session, he had not much faith in its feasibility. A bank note issued in Halifax and redeemable there could hardly be expected to pass at par in Toronto, where there would be the expense of sending it to Halifax for redemption. He considered that bank notes could only be made payable at the place of issue, and their issue limited to the point at which they were payable. The issues of all the ordinary banks would thus be normally confined to the provinces in which they were located.

The bill of the previous session had provided quite unnecessary safeguards for the issues of the banks. So far as Canadian experience went, it was evident that an adequately enforced double liability clause would afford sufficient protection. The difficulty with reference to this clause, as embodied in previous charters, was that the courts held that the whole of the assets of a bank should be realized before the shareholders could be called upon, which, of course, very greatly impaired the security provided. It was proposed to remedy this defect and render the double liability available immediately after failure.

As to improved forms for bank returns, after discussing the matter with many practical men he was convinced that, while certain improvements might be made, it was really impossible by legislative enactments to insure against mismanagement. After the Government had taken all reasonable precautions depositors in particular must take their own risks.

Though it was customary to attach considerable importance to the requirements that banks should hold in their vaults a certain minimum specie reserve, yet he did not consider it to be of much value. In the first place, if the minimum is small the banks are apt to regard it as sufficient, which usually leads to their keeping less than would have been the case where no minimum was exacted. But the essential futility of such a requirement lies in the fact that, under the conditions of modern banking, the real capacity of the banks to meet their obligations must rest, not upon their specie in hand, but upon their investments, and, for immediate funds, in the case of Canadian banks, upon their balances abroad, particularly in London and New York. Further, the fluctuations in the bank circulation, according to the seasons, would render it difficult to maintain or enforce a fixed percentage of reserve.

Recurring again to features more distinctly his own, Sir Francis held that the Government should in some measure share in the profits derived from the supply of a paper currency. He referred to the bank tax imposed in Lord Sydenham's time as an alternative to the Bank of Issue. The tax, however, had been greatly reduced in order to promote larger specie reserves and the investment of bank capital in government securities. He now proposed to abolish the bank tax and the compulsory investment of one-tenth of the bank capital in government securities, and to aid the Treasury by extending the range of

Dominion notes. As affecting the banks, there were two proposals. In the first place, the banks were to be required to hold one-half of their reserves in Dominion notes. These notes would be as serviceable to the banks as gold, while the Government would have the benefit of using the gold. In the second place, it was proposed that the Government should assume to itself the issue of all small notes below four dollars. He referred to the fact, so obvious at the time, that since the American Civil War the smaller note issue of the banks had been supplanted by American silver. The Government was already taking measures to rid the country of this silver in order to make room for the circulation of the small Dominion notes. Thus, by the proposed changes, the banks would suffer very little restriction, while the Government would considerably benefit.

He then went into particulars as to the amount of government notes then outstanding, and the additional issue required. The Dominion notes were to be issued against government debentures held in reserve, a system which Sir Francis held to be absolutely safe, as the Government could get advances on these securities at any time. When the existing arrangement with the Bank of Montreal was terminated, the Treasury Department would undertake the entire management of the issue and redemption of Dominion notes. establishing for the purpose branch offices in each province.

As regards the metallic currency and standard of value, his proposal was to have simply one uniform and standard currency for the whole Dominion. In this connection he referred to the inconvenience which resulted from the existing differences of standard and currency between Nova Scotia, New Brunswick and the rest of Canada. As to the negotiations with reference to a uniform international currency he considered that there was so little immediate prospect of an agreement that it would not afford justification for delay. The people of Nova Scotia who had adopted the sterling standard doubtless considered their standard the best. But it was simply a matter of practical convenience, and circumstances detemined that American gold from New York must be the normal reserve of the leading banks. As regards the silver currency, it was necessary that Canada should have a coinage of its own, and this was in process of being secured.

Such is a survey of the leading features of the general plan

which Sir Francis Hincks, taking counsel with a multitude of advisers, had worked out for the future regulation of banking, for the issue of government notes, for a uniform currency standard, and the supply of a fractional coinage.

The opponents of Sir Francis Hincks and the Government never wearied of asserting that most of the details of his banking scheme had been recommended, in one form or another, by the bankers themselves. The fact of the matter was, as may be learned from the evidence presented before several special committes on the subject, that the bankers of Canada had recommended almost every conceivable form of banking, from small private banks with free note issue and few other restrictions, round to the scheme, favoured by the largest banks in the country, for an exclusive government note issue, and such conditions as would virtually wipe out all the smaller banks. Where nothing that Sir Francis Hincks could possibly have brought forward had not been already recommended by practical Canadian bankers, it is obvious that it still rested with him to select such features as would satisfy conflicting interests, and might be combined in a measure which could be got through Parliament. For the fact remains that, out of virtual chaos which had been growing more complex and more embittered for years, Hincks alone proved his capacity to bring order, to reconcile conflicting interests, and to establish Canadian banking and currency upon a basis which has endured ever since, and is still the pride of the country.

Sir Francis was shrewd enough to virtually settle his case out of court by securing in advance the substantial approval of the bankers for the chief features of his policy. Hence the plan as laid before Parliament was, quite generally, received with favor. The *Globe*, it is true, and other strongly party papers attacked it severely at every available point, and manifested considerable personal animus towards its author.

It was not denied that the plan contained several admirable features, but, as already indicated, it was easy to prove that all its good points had either been suggested before, or had been imposed upon an unwilling minister by practical bankers. The chief criticism, however, was directed against the proposed extension of the Dominon notes. This was represented as simply a scheme to place the control of the currency in the hands of the politicians and to enable them, in an insidious manner, to ex-

tract from the country a forced loan. Such loans were likely to succeed each other until the whole note issue of the country was in the hands of the Government. In its anxiety to discredit Hincks—once a friend, now more than an enemy—the *Globe* forgot the defects which it used to point out in the Canadian banking system as it was, but which, now that it was proposed to alter it, became all that was safe and desirable.

The *Globe* had, indeed, been consistent in its opposition to any Government issue of paper money. On that ground it had, at the time, undoubtedly strong argument. Up to that time the tendency of the system in Canada had been in the direction of securing forced loans for the Government, and the experience of the United States during the Civil War, not to mention more remote examples, certainly lent colour to the apprehension that, once a government embarked in the issue of paper money, the temptation to expand the issue in every period of financial embarrassment would be too great to be resisted. The natural conclusion of such a process was a practically irredeemable paper currency.

A further argument employed by the financial critic of the *Montreal Witness* had a good deal of force, namely, that the power of a government to issue paper money was in the nature of a financial reserve, to be drawn upon in periods of extreme need, but not to be depleted for merely temporary purposes or at the discretion of any political party which happened to be in power. Even under Sir Francis Hincks' proposed extension of the Dominion note issue, it was frankly admitted that the Government needed the money. On the other hand, it was pointed out to the opponents of the measure that the system could not now be given up, since the Government could not well obtain the sum of between three and four millions with which to redeem the notes already issued under previous Acts. At the same time, when endeavouring to establish the perfect safety of the Government issues, Sir Francis maintained, with a greater fervour of patriotism than was customary with him when he had better argument at hand, that the credit of the country was so secure that under no possible circumstances would there be any difficulty in securing all the funds necessary to provide for the redemption of the notes.

Again, in reply to the criticism that there was no adequate guarantee against an indefinite extension of the issue of

Dominion notes, Sir Francis declared with considerable warmth that a Finance Minister who would extend the issue of Dominion notes beyond the limits prescribed, would deserve to be impeached. To which the opposition critics made the rather cogent reply that the Finance Minister would probably have but little difficulty in securing the sanction of his party for any extension of the note issue which was likely to be in the interest of the party. Also, that in any case the impeachment of a politician would be but poor satisfaction for a people who found their currency depreciating in their hands, or becoming practically inconvertible.

Thanks to the expansion of the country and its general prosperity, we have not found the government issues becoming depreciated. But we have found a Finance Minister, with a full Treasury, drawing in a rather improvident manner upon the note issue reserves which had accumulated during a period of unusual prosperity, and finding, as the *Globe* predicted, practically no remonstrance from his colleagues.

Though each part of Sir Francis Hincks' scheme was quite intimately related to the others, yet it was presented to Parliament in a series of measures beginning with a resolution relating to banks and banking. The subsections of the general resolution covered the various features of the new system as presented to the House. The essence of them may be given in the following terms:—

No new bank shall be chartered or existing bank charter renewed except on the following conditions:—

1. The capital of each new bank to be not less than $500,000. The whole amount to be subscribed for, and at least twenty per cent. paid in before the bank shall issue notes or commence business. The whole of the capital to be paid in within twelve years from the date of the charter, and no new bank to commence business before $200,000 shall be *bona fide* paid in. Existing banks, however, may continue as at present until their charters expire.

2. Each bank must satisfy the Treasury Board that these conditions have been complied with, and obtain a certificate to that effect.

3. The note issue not to exceed the amount of paid up

capital, and no notes to be issued for a smaller sum than four dollars.

4. The shareholders of banks to be subject to a double liability on their stocks. Should a bank be unable to meet the claims upon it, this liability shall be enforced within ten days after six months from suspension of specie payment by the bank, and without waiting for the realization of its assets.

5. Shareholders disposing of shares within one month before the suspension of specie payment by a bank shall be liable for the calls upon their shares, as if they had not disposed of them.

6. All banks coming under these conditions shall be exempt from the tax upon note circulation.

7. Suspension of specie payment for ninety days shall render a bank insolvent and lead to the winding up of its affairs.

8. There shall be no division of profits, whether in the shape of dividend or bonus, beyond eight per cent. per annum, until the bank has a reserve fund equal to twenty per cent. of its capital. All doubtful debts to be deducted before calculating the reserve.

9. A list of shareholders with residences and the amount of stock held, to be furnished to Parliament annually by each bank.

10. Shareholders to have one vote for each share, but must hold stock at least three months before voting on it. Shareholders may vote by proxy, but only through other shareholders.

11. Shareholders may regulate by by-law—(a) The qualfications and number of directors, the number to be not less than five, or more than ten; (b) the filling of vacancies among directors and their remuneration, including that of the president and vice-president; the directors each to hold from $3,000 to $5,000 in stock, according to the amount of the paid-up capital of the bank; (c) the directors to be elected annually by the shareholders, who may also regulate by by-law the amount of discount or loan which may be made to directors or firms in

which they are interested, but such advances shall never exceed one-twentieth of the total advances of the bank.

12. Monthly returns, under prescribed forms, to be furnished to the Government and signed by the president and chief officer of the bank. Here follow the forms, which are much the same as at present, though not quite so detailed.

13. Appointing penalties for false statements in the bank returns.

14. Appointing penalties for giving preferences to any creditors over others.

15. A bank shall not grant loans or discounts on the security of its own stock, but may hold a privileged lien on its stock for over-due debts.

16. No dividend or bonus shall be made which may impair the paid-up capital. If a bank suffers loss it must be made up out of uncalled stock, or the capital of the bank must be reduced to correspond to the unimpaired capital.

17. The bank shall receive its own notes at par in payments due it, but it shall be required to redeem its notes in specie only at the head office, or wherever else they are made payable.

18. Each bank shall hold as nearly as possible fifty per cent. of its cash reserves in Dominion notes, and shall never hold less than one-third of its reserves in Dominion notes.

19. The banks to be subject to all general regulations passed by Parliament.

20. Makes provision for existing banks obtaining amended charters, so as to conform to these conditions, and for new banks obtaining charters in accordance with these conditions.

21. Provides for increasing the capital of existing banks; such increase of capital to be paid within five years.

22. No bank charter to be extended or new charter to be granted except on these conditions, and no charter to be extended beyond 1st January, 1881.

23. No private person or corporation, except a chartered bank, shall issue any instrument intended to circulate as money;

but the Halifax Banking Company may continue its notes now in circulation until the year 1874.

24. Banks to be subject to the provisions of any winding up Acts which may be passed.

25. The Bank of British North America, which by the terms of its present charter is subject to the general banking laws of the Dominion, shall not, after January 1st, 1871, issue or re-issue any note for less than four dollars.

Special conditions were granted under several of the clauses to meet the situation of the Banque du Peuple, the liability of whose shareholders and directors differed from those of the other banks.

In common with the majority of the bankers of Ontario and Quebec, Sir Francis Hincks believed that Canadian experience has justified a system of banks with numerous branches rather than a larger number of small banks with few or no branches. In this feature, as he recognized, and not in the free control of the note issue, lay the superiority of the Canadian banking system over that of the United States. In a country situated as Canada was, having the larger part of its banking business connected with the gathering of produce over wide areas, and the shipping of it over long distances, with a corresponding process in the supplying of manufactured goods, whether from foreign countries or Canadian centres, economy and efficiency alike required a system of banking where the same institution could afford accommodation at fairly uniform rates over wide areas, and in many centres simultaneously. Obviously these objects were best secured by a few large banks with numerous branches.

At this time, however, Canadian experience was following both lines of development. A number of small new banks were starting up, while the larger of the well established banks were rapidly extending their branches and even forming amalgamations to enlarge their influence and connection.

In accordance with his convictions, Sir Francis Hincks at first proposed that the minimum capital of any new bank should be $1,000,000, with 20 per cent. paid up. This, however, met with strong opposition from the friends of the smaller banks, especially from the Eastern Provinces, supported also by Sir A. T. Galt and several members from Quebec. As a result of

this opposition, the minimum capital was reduced to $500,000, with 40 per cent. paid up. But even this minimum was so strongly objected to that in the end Sir Francis was fain to give up any specific minimum, save what was implied in his irreducible condition, that at least $200,000 should be *bona fide* paid in before a bank should be permitted to begin the business of banking.

Several other minor amendments were made in the details of the resolutions before they found final expression in law. In clause 16 the provision with reference to reducing the stock of the bank to meet losses was omitted altogether, as liable to abuse. The act as finally passed (33 Vic. c. 11) was to apply to all old banks whose charters were renewed, as well as to all new banks obtaining charters.

The new act relating to Dominion notes, though making several radical departures from Galt's system, appeared merely as an amendment to the previous act (31st Vic. c. 46), under which the Bank of Montreal had been operating as agent for the government issues. The resolutions on which these amendments were based were in essence as follows.

1. It is expedient to amend the "Act to enable banks in any part of Canada to use notes of the Dominion instead of issuing notes of their own," by repealing the first seven sections of it, except for the arrangement with the Bank of Montreal, which shall remain until terminated as provided for in the act.

2. Permits the issue of Dominion notes to the amount of $4,600,000, on the security of debentures of the Dominion to a like amount, to be held by the Receiver-General for their redemption. This amount may, if necessary, be increased by Orders-in-Council to an aggregate of $7,000,000, the increase not to involve an issue of more than $1,000,000 in three months. When such increase takes place the Receiver-General shall hold specie to the amount of one-fourth of the increase and of the debentures already held.

3. Any additional issue of Dominion notes over $7,000,000 may take place in accordance with public needs, but the Receiver-General must hold an amount of specie equal to the full amount of the excess beyond $7,000,000.

4. Subject to present agreements until they are terminated, section 9 of the act shall be repealed, and branch

offices of the Receiver-General's Department may be established at Montreal, Toronto, Halifax and St. John, N.B., for the issue and redemption of Dominion notes.

5. Section 10 to be revised in accordance with these resolutions.

6. To repeal section 11, providing for special commissioners to supervise the issue of Dominion notes and the debentures held for them. The Receiver-General shall publish monthly in the *Canada Gazette* a statement of the Dominion notes outstanding on the last of each month and of the specie and debentures held for their redemption.

These resolutions, as already indicated, were the subject of much more discussion than those on banking, except where the banking system was affected by the issue of Dominion notes. As the result of repeated discussions in Committee of the House, the first issue of the notes was increased from four to five millions, to be secured by a like amount of specie and debentures, the proportion of debentures not to exceed eighty per cent. The amount permitted to be held under the second section was likewise increased to nine millions, one-fourth of which, as a rule, was to be held in specie; and in no case less than fifteen per cent., though if it fell below twenty-five per cent. it must be restored to that proportion as soon as possible.

Under the fourth resolution the Government was to be permitted to employ a bank, if thought advisable, as agent, instead of establishing a branch office of the Receiver-General's Department. Otherwise the measure remained very much as presented in the resolutions.

During the following session of Parliament (1871) Sir Francis Hincks managed to round out his plans by improving and enlarging the system of government savings banks, and by establishing a uniform currency throughout the Dominion.

But when this was accomplished it was found that the laws relating to banks were both voluminous and scattered. Prior to 1887 each bank had a separate act of incorporation. The details were much the same for every bank, having been gradually growing in complexity since the granting of the first bank charters. At the time of Confederation, the Act of 1867 was passed (31 Vic. c 11), which extended the range of the charters of the different banks incorporated in the various Provinces to the whole Dominion, and applied several

features of the Canadian Provincial law to the banks of the Maritime Provinces. It also extended the range of business in which the banks might engage, as in the way of taking mortgages as collateral security and holding lands obtained through them, granting advances on bills of lading, warehouse receipts and timber warrants. Then came the act of 1870.

Thus every new bank to be chartered, and they were rapidly increasing in number at this time, required quite an extensive act of its own, in addition to coming under the two separate acts of 1867 and 1870. It was naturally felt, therefore that it would be expedient to combine in one act those features of the charters of the separate banks which were practically the same in each, and to consolidate with these the acts of 1867 and 1870. This was the object of two resolutions introduced by Sir Francis Hincks in March, 1871; and the General Bank Act of 1871, the first to appear in its modern shape, was the result.

In the process of consolidation a few minor changes were made. Thus in the troublesome feature of the minimum of capital stock on which a bank might be allowed to begin business, the general act reverted to Hincks' specific minimum of $500,000 of subscribed capital. But it lowered the amount required to be paid in before issuing notes or beginning ordinary business from $200,000 to $100,000. Within two years, however, the paid up capital must be increased to $200,000, after which no specified time was fixed for the paying of the remainder, which would still represent a claim on the shareholders for the full amount in addition to the double liability in case of need.

This act did not apply to any bank whose former charter had not expired when it came into force; but provision was made for extending its application, by Order-in-Council, to any such bank on application and in accordance with certain conditions. Only to a limited extent, also, did the act apply to a few special banks, such as the Bank of British North America and the Banque du Peuple. It covered, however, the great majority of the Canadian banks, a list of which is contained in the act.

As a result of this consolidation future acts for the incorporation of banks were reduced to specifying the name of the bank and the location of its chief office, the authorized amount of its capital stock, and the amount of each share.

The working of the first general bank act, during the next ten years of important national expansion and adjustment, suggested certain amendments, and gave time for the charters of the outside banks to expire. Hence it was made possible, under the renewed act of 1881, to more completely realize Sir Francis Hincks' idea of a perfectly uniform Canadian banking law and practice.

Meantime it is necessary to outline the fortunes of certain influential and typical individual banks, and trace the influence which certain methods and policies had upon the banking practice of the country. For the practice of business, including banking, determines the character of the law on the subject much more completely than the law determines the practice.

ADAM SHORTT.

INSURANCE AND SPECULATION.

If it were possible to regard the recent concentration of public attention on the operations of a great insurance society merely in the light of an event arousing general interest in the subject, those concerned in the business of life insurance might perhaps be inclined to feel some qualified satisfaction at the publicity given to every detail of this latest scandal. So favourable a view of the outlook is hardly justified, however. It is to be feared that more or less of a general lack of confidence in insurance companies may be one of the results of the public washing of a mass of very dirty linen, however lacking in justification such distrust may be.

A more general understanding of the underlying principles of life insurance would be of advantage in several ways. Not the least important of these is the destruction of the opportunity, afforded by the ignorance of the client, for mystification by a soliciting agent, and the loss of the charm possessed by perpetual changes in the details of the policies offered to the public, and pressed on unwilling hearers as if they contained the solution of the world-old problem—how to get something for nothing, or, at any rate, for less than it is worth.

Banking and insurance have some points of close resemblance, though they differ fundamentally in important features as to the use to be made of funds with which banking or insurance companies are entrusted by their clients. Each class of institution, then, receives funds for safe keeping, though on very different conditions. The bank requires, as a point of absolutely vital importance, to place its funds so that a large part of them may be recoverable with very little loss of time, and without serious risk of sacrifice through quick realisation. Only a very small part of the funds of a life assurance society need be kept in a corresponding form. By the nature of the business, the risk of unusually heavy demands for immediate payment may almost be said to be absent in life insurance work, while it is never to be left out of sight by the prudent banker.

At all ordinary times, the banker may safely lend the greater part of the funds deposited with him. The law of averages, as it is often called, results in the practical certainty that receipts and payments will approximately balance, or will bear such relations as can be foreseen and provided against. Some of the differences can be foreseen long in advance, others can only be gauged a short time ahead, and it is because only this short time is available that assets need to have a form adapted for ready realization. The same law of averages dominates the operations of the insurance company. And just as the large bank commonly finds that some of the fluctuations which are disturbing to the business of small banks are hardly felt in its operations, so the large insurance company has much more stable conditions of business to reckon with than the small company. The amalgamation of small banks, drawing business from different sections of the country or of commercial life, introduces compensatory variations into the business of the merged institutions. Similarly, the growth in size of an insurance company should be accompanied by a lessened liability to departures from the regular course in its business, should give greater stability to the institution, and may introduce economies into the management.

But, while it is true that, to fulfil the ends for which it is organized, an insurance company needs to grow to a substantial size, it is not true that the advantages of large size continue to increase as the size increases. In fact, it might perhaps be more near the truth to say that, when once a size sufficient to ensure a reasonable stability of experience in the matter of mortality of clients is attained, the institution rather loses than gains by the persistent struggle to maintain growth at the rate experienced, and properly made the subject of rejoicing, in the earlier stages of its existence. One very important point, which strikes the observant outsider forcibly, is that in the struggle among a small number of large institutions for pre-eminence there is an enormous waste in the matter of advertisement in its various forms.

What purposes does advertisement serve in this connection? What are the ends aimed at? They are mainly two. One is to arrest the attention of persons not insured, and convince them of the desirability of effecting such reasonable insurance as is within their power,—to let them know of the various plans on which they may effect a contract of insurance, and give them

information which may enable them to appreciate the relative advantages of the different forms of contract open to them. The other is to convince the would-be insurer that a particular company or society can meet his needs more effectively than any other—quite independently of the question whether it is really a matter of more than trifling consequence to him which of a dozen different companies may write his policy.

It is in this business of meeting the other fellow and going one better, to use informal phraseology, that the great wastes of advertisement are realized, not alone in insurance, but in all lines of business. In insurance it is somewhat more obvious than in other businesses that the struggle for business is, in large measure, the struggle which of two or more competitors shall secure a certain piece of business, rather than the effort to create business otherwise non-existent. In manufacturing enterprise, one firm may well be able to produce goods more cheaply, as well as better adapted to the tastes of an individual customer, than a competing firm. But there is no possibility of patenting the forms of insurance, and the article offered is substantially the same—can be made identically the same, if we assume equal solvency for the competing institutions—whichever society secure the contract. And, as to price, there is no field of activity in which it is less true that one institution can offer the same thing at a lower price than any other. This is easily seen if we examine the simple basis of all life insurance.

Practically little needs to be added on one side of the subject beyond the remarks already made about the dependence of insurance companies on the law of averages when dealng with large numbers. The company offers the person insured a guarantee that his family shall receive a certain sum in the event of his death, whenever that may chance to occur, to take a common and simple form of the contract for purposes of illustration. In return, the insured undertakes to pay, at regular intervals, say yearly, an agreed premium. Apparently it is a one-sided contract, in which the company takes the risk, the insured the profit. Should death occur soon, that is how it works out, and the purpose of the contract, from the point of view of the insured, is to obtain this advantage. But it is not to be assumed that either the company or the insured expects an early decease of the latter. The opposite might even be fairly claimed. And so far as the company is concerned, we might almost say that the opposite is realized, and

even guaranteed. It is not merely that the medical examination enables a proposition from a person obviously nearing his death to be rejected. This cannot effectively guard against the deaths of large numbers of policyholders before their payments have sufficed for the accumulation of the sum due on their death. It is simply that the frequency of death, as affecting a large number of average persons, is calculable with tolerable exactitude. Those who die early are compensated for by those who live long. The one pays less than his successors receive, the other pays more. By having a sufficiently large number of contracts in force, the company is assured of receiving in premiums enough to pay its matured policies, having regard to the earnings of its accumulated funds. So much we all know well enough. But it is not so generally recognized that these facts absolutely prevent policyholders in general from obtaining exceptional returns on the payments they make. It is true that the rates asked may not be duly adjusted to the risks undertaken, and then one class of policyholders will gain at the expense of another class. From time to time it is realized that particular associations formed for insurance purposes have been operating on rates thus ill adjusted, and the error has to be corrected. Such a case has recently occurred with some of the fraternal associations, and has required exactly the remedy indicated. But all the insured cannot gain at nobody's expense.

From what sources can funds be obtained sufficient to offer exceptionally favourable terms to policyholders? We may put aside the possibility of the mortality experience of particular societies being exceptionally favourable, though the point calls for one comment, namely, that a society which draws its policyholders exclusively from those who follow occupations exceptionally favourable to long life, or from persons of special social habits, may show better results than societies not thus exclusive. That they do so, however, excludes from the advantage of their better terms all who do not meet their conditions. If a society insuring only total abstainers obtain better results than one accepting all classes except notoriously immoderate persons, the advantages can only be secured by those who are willing to renounce the use of intoxicants. Dealing, not with such special cases, but with the societies which insure all classes, it may be accepted as inevitable that, in the long run, the mortality experience will be very

closely identical in different large societies, certainly not different in a calculable degree, such as will justify promising results based on such differences. And we have to judge of this matter, not by the experience of a few years, but by the way things work out in the long run.

A second source of advantage may be found in exceptionally capable management, resulting in unusual earnings on invested funds, or a low cost of conducting the business. On the question of expenses of management there is more to say. As to investments, it need not be said that judicious selection of investments may yield favourable results. But, as between the thoroughly sound and well-managed institutions, can it be reasonally claimed that there are such differences in earnings on invested funds as justify the promise of a better return for a given rate of premium in some cases than in others? In the matter of investment, as in that of mortality, the influence of the law of averages is felt. Some of the investments yield more, others yield less, than the standard rates. If funds are largely placed in investments offering relatively large returns, the risk of loss, failure to meet expectations, in whole or in part, can hardly be escaped. A good coup now will in all probability be balanced by a failure by and bye. Any considerable leaning towards investments of a risky type is as likely as not, more likely than not, to result in losses which outweigh the gains derived from some of the ventures. The rule which ought to be followed by an insurance society which seeks to deserve public confidence is to set a high value on security in connection with its investments. The appropriate investments are those of a permanent nature, and ready realization is not of prime importance, so that a relatively high return is obtainable without the sacrifice of security which would necessarily accompany an unduly high return in an investment of the class which chiefly commends itself to the prudent banker.

There is no place for stock-jobbing in the proper business of insurance. Investments are held for the regular income they yield and the security of the capital represented, not for the chance of gains from stock market manipulation. On this point it would appear that there is something left to be desired in the practice of some of the larger associations. We read of the maintenance of inflated balances of uninvested funds in order that advantage might be taken of favourable opportunities for investment, and of the practical confession of failure in judg-

ment of investments involved in the explanation of sales of considerable amounts of securities. The funds of the insurance companies have become available for the purposes of speculators, which has been productive of no little indirect evil, as well as being injurious to the societies themselves. This association of insurance and speculation is one of the worst features of the situation.

Are the insurance societies in a position to play the game of speculation in such a way that they can count on winning steadily? If that be the case it is a situation requiring most serious reflection on the part of those from whom they win. Stock market speculation on a large scale, as practised in the large cities of this continent, certainly resembles a game played with loaded dice. And the control of such gigantic funds as have been accumulated by the largest insurance organizations serves as a means of loading the dice. But it is not so clear that the gains fall to these associations rather than to those who control their funds. A question that is troubling a good many people is how an investment the revenue from which is $3,514 per annum comes to be worth $2,500,000. There is involved either striking philanthropy or else the conclusion that it is worth a good deal to control the investments of a large insurance society, a conclusion not startling in itself, for it seems natural enough, but startling in relation to what is implied.

The faster an insurance company grows, the larger the amount likely to be added to its investments annually, and hence the more important the power of selecting those investments, as well as of controlling the re-investment of funds needing re-investment. As already observed, a characteristic difference between banking and insurance arises in this connection. In banking a great deal of re-investment is necessarily called for, while permanence is a desideratum in the investments of insurance societies. Even in the case of banking funds, some portion may be, and is, maintained in permanent investments. The writer recalls one incident which his readers could probably match many times over. It was in connection with the holding by an important British bank of a substantial amount of British consols. As is well-known, these rose, some little time before the South African war, to about 114. A bank official, it is stated on excellent authority, suggested to the directors of the bank with which he was associated that they

might profit by selling part of their consols in the neighbourhood of 110, in view of the practical certainty of a fall in the not distant future. As it has turned out, they might have been replaced at figures between 85 and 90 within four years, or between 90 and 95 within two years. But the directors held that their consols were of service to them in a way which made such a reasonable speculation one not to be entertained. The principle involved in their refusal, whether it be thought that the action was extreme or not, is one not to be neglected. And it has its application to insurance investments. These, if sound, serve their purpose by being held, far better than by being sold and bought and resold, even though it should be believed that the market can be influenced favourably for the society at each stage of these operations.

Were insurance funds more evenly held by a larger number of institutions, none of which could be exposed to the strong temptation to lend themselves to the purposes of stock-market manipulation, a more healthy state of affairs might result both for insurance business and for business generally.

The influence of the speculative spirit is found in other parts of insurance business than the control of the invested funds or of the funds awaiting investment. In the contracts offered to policyholders we find that the advantages of insurance are combined with the attraction of speculation. A definite return is contracted for and an uncertain addition held out as additional bait. Grant that it is necessary to base rates on the experience of the past and that the mortality of the future may be more favourable owing to more hygienic conditions of life among the people generally, or to like reasons. Grant that rates must be calculated on the basis of certain expectations of earning power of investments, and that it is essential to err on the safe side, so that more will probably be earned than has been allowed for in fixing the rates. Grant that economies in management may enable the business to be conducted on a smaller comparative expenditure than corresponds to the loading of the rates for that purpose. The question is whether it is really well to leave large margins and ask high rates, endeavouring to make them attractive by holding out the prospect of substantial bonus additions to the benefits received, or to calculate more closely, attract by the low level of rates for certain benefits, and compel economical management by leaving no margin for extravagance. The attractions of

insurance are of an essentially different nature from those of speculation. The more the speculative spirit is fostered, the less the chance of dominance for the inclination towards painful self-denial and slow accumulation, and this latter inclines towards insurance. The only excuse that seems reasonable for the inclusion of so strong a speculative feature as marks some of the developments of recent years in insurance policies is that it is necessary to yield to the inclinations of the people whom one seeks to interest. That settles the matter, if it be so. But one may take leave to doubt.

Reference has been made to the possibility of one company having advantages over others in the matter of the expense of conducting its business. Now, if the comparison to be made is one between the gigantic insurance corporations of America and the institutions conducting business in the old world, it certainly works out unfavourably for the former. To illustrate the matter on a sufficiently wide scale, take the figures of a standard German encyclopœdia relating to the year 1898. We find the following percentages of expenses to income:—

44 German companies.	Expenses, 11.86 per cent of income.
16 Austrian companies.	Expenses, 17.8 per cent. of income.
6 Swiss companies.	Expenses, 9.0 per cent. of income.
80 English companies.	Expenses, 9.5 per cent of income.
36 American companies.	Expenses, 22.7 per cent. of income.

The English figure stands somewhat above the ordinary level. Twenty years ago it was reported as 8.9 per cent. In the latest return it stands at 9.1 per cent. for the ordinary, as distinguished from the industrial, branch of the business.

And the English companies have not been exactly stagnant in the last twenty years. A comparison of the latest figures with those of the first blue-book on the subject twenty-three years ago shows that premium income, funds, expenses have all about doubled, no very bad record. A high expense-ratio is naturally the accompaniment of rapid growths, for new business costs more to get than the old does to retain. It is, however, not difficult to conceive that new business may be secured at too heavy a cost. Of course, so long as young, healthy lives are being added in growing numbers to the list of insured, the mortality will be low, and the accumulation of funds may be rapid. But all this has to be paid for in due time. If the

heavy expense-ratios of American practice be explained on the ground of the cost of new business, it is permissible to ask if a less rate of growth with a smaller expense-ratio would not be in the interest of insurers, whatever may be said of agents. The high ratio of expenses is not confined to the larger companies, but their influence, in establishing standards of conducting insurance business, must be assigned a large part of the responsibility for the general high level of expenses of companies operating or organized in North America.

For purposes of illustrating the point numerically, consider the comparison of figures sufficiently representative of the general run of experience in Canada and England, observing that, in the table above, the Canadian companies would have been bracketed with the American, with 23 per cent. of income going in expenses. In the year 1900, general expenses, while taking 23 per cent. of total income of Canadian companies, took 28 per cent. of premiums. The British figures are 9.1 per cent. of total income, 14 per cent. of premiums. For every seven dollars of premiums, the British companies could use six dollars towards meeting liabilities or increasing funds. Canadian companies could add but five dollars to funds out of every seven collected in premiums. So far as the fair representation of the case is concerned, we may suppose claims met out of funds already in hand, and the six dollars, or the five dollars, added to the provision for the claims to arise in the future in connection with the contracts on which they were paid.

What does this mean when expressed in terms of the rate of interest needed on invested funds to give equal benefits for the same premiums? We can indicate it by an example. Suppose the case of persons insured on an ordinary whole-life policy, and entering at age 30. According to certain German tables, based on fifty years' experience, the average after lifetime is nearly 35 years, which is somewhat above that for the entire English population according to the Registrar-General's tables. With a term, averaging 35 years, for accumulation, the six dollars invested yearly at four per cent. would amount to very nearly as much as the five dollars with five per cent. interest. We may say, with only a small fraction of inaccuracy, that an expense-ratio of fourteen per cent. of premiums, and an investment return of four per cent., would give results barely

excelled with an investment return of five per cent. where the expense-ratio is 28 per cent.*

Now, the question puts itself before us, if the high expense-ratio is so associated with rapid growth to gigantic sizes as to be fairly accounted for by reference to the expense of attaining great size and maintaining corresponding increase, will that great size suffice to afford economy comparable with the difference of earnings presented in the comparison of four per cent. with five per cent. in the above calculation? Can a large society earn one per cent. more—can it earn one-half of one per cent. more—on its invested funds than a society of modest size? Even if the little calculation above offered give an exaggerated idea of the extent of the difference necessitated to afford justification for a high rate of expenses in the economy resulting from handling large business, and the greater opportunities open to a large institution, it will serve to indicate that when a society with a large expense-ratio is compared with one with a low ratio, the former needs to make investments in a considerable degree more remunerative than the latter in order to give equal results.

Naturally the competition of two or three large institutions to maintain a reputation for magnitude and increase of business leads to excessive expenditure in procuring new business. Do policyholders sufficiently understand what is meant to them by the high cost of such competition for business? It is from what they contribute that the expenses involved are met. That is, at any rate, the conclusion which seems to be inevitable when we consider the other possible ways in which compensation might be found for high expenses. Might not the more sober methods, less sensational growth, and more economical conduct of business, found in the older countries, be found to present advantages to policyholders doubtfully offset by whatever there may be that is superior in American insurance methods?

A. W. Flux.

* The accumulated sums, when the thirty-fifth payment was made, after the lapse of thirty-four years, would be, at four per cent., $441.90, at five per cent., $451.60. For exact equality, a rate a little under five per cent. would be needed. Four and a half per cent. would yield only $407.50.

It must be noted that either a later age of entry or the use of a table showing a shorter expectation of life would make a worse showing for the higher expense-ratio.

THE GROWTH OF CORPORATIONS.

THE BENEFICIAL RESULTS TO SOCIETY WHICH WILL PROBABLY ACCRUE FROM IT, AND ITS EFFECT ON CREDIT AND BANKING.

The business of banking and the cognate subject of currency have occupied a large share of the world's attention since the dawn of the commercial era. Joint-stock banks seem now to be such a necessary part of our economic machinery that it almost gives one a shock to be reminded that they are hardly more than 200 years old.

But, young as they really are, they represent one of the first attempts of mankind at collective or co-operative effort for trading or money-making purposes.

Adam Smith, writing 120 years ago, said that "the only "trades which it seems possible for a joint-stock company to "carry on successfully without an exclusive privilege, are those "of which all the operations are capable of being reduced to "what is called a routine, or to such a uniformity of method "as admits of little or no variation. Of this kind is first the "banking trade, secondly, the trade of insurance from fire and "from sea risks (life insurance being then unknown, as well "as gas companies, railroads, telegraphs, etc.), thirdly, canals, "and, fourthly, water works."

He says further on, "the joint-stock companies which are "established for the public-spirited purpose of promoting some "particular manufacture, over and above managing their own "affairs ill, to the diminution of the general stock (or capital) "of the society, can in other respects scarce ever fail to do more "harm than good."

This was written by the wisest man of his time, only 120 years ago, and to-day the most conspicuous economic fact in the world is that what we may call individualism in trade and industry of all kinds is rapidly dying out, while its place is being taken by those very joint-stock companies which Smith

deemed so inefficient, and to the growth of which there seems to be hardly any limit.

The advantages of collective effort on a large scale are now so obvious that the ultimate result cannot fail to be the complete substitution of the joint-stock company for private effort in all the processes for the production and distribution of all the necessaries and luxuries of life. In other words, there will soon be no field for individualism in our material affairs. The commissariat department of society, if I may use such a phrase, must be organized collectively, while individualism will find its true field in the higher spheres of thought, in invention, discovery, art, literature and conduct.

This development is a perfectly logical and natural one, little as it has been foreseen. It has been brought about by the constant pressure of competition demanding ever greater efficiency and economy of method. It is now seen that the old ideas as to the supposed superiority of, and necessity for personal proprietorship, and the owner's supervision and management in most undertakings, if not entirely wrong from the beginning, have certainly grown to wear a very different aspect under modern conditions. The mere necessity for *continuity alone,* apart from all other advantages, seems to be driving all successful private business into the shape of incorporated companies; and, once in that shape ,there is no return from it.

It cannot be doubted that in this great natural and spontaneous development of the collective or co-operative idea in the material affairs of life, there is very great promise for mankind. In this way only does there seem to be any real promise of the successful organization of labor—so passionately desired by Carlyle, and which he termed "the problem of the whole "future, for all who will in future pretend to govern men—the "universal, vital problem of the world."

Hitherto the movement has not been looked upon as fraught with great potential blessing to the world. Very much the reverse rather. It has passed into a proverb that "corporations have no souls," and the almost unparalleled state of things in the United States at the present time would seem to give little promise of salvation by means of corporations. We knew also that the most strenuous efforts are being made in the neighbouring country by some of the most public-spirited of the people to put down the so-called Trusts, which they regard as

little better than vampires, but which in themselves simply represent the latest development of the collective ideas.

It must certainly be admitted, however, that before these Trusts and other great corporations can be made to yield the benefits to the world which they are capable of doing, much will have to be done by legislation in the way of regulating them. At present, for the most part, they seem to be controlled by men of the buccaneer type, who merely run them for plunder, or swamp them with watered stock in the very act of creating them. There is no more urgent work required of our legislators to-day than the enactment of proper restrictions and regulations for all joint-stock companies.

But to indicate something of the possible benefits which may be derived from them, let us consider that it has only been since the development of joint-stock companies, and by means of them, that the idea of pensioning employees has come into existence. It has, however, grown quite spontaneously, and, although hardly yet out of its infancy, there is already scarcely a bank in England of any consequence which has not organized or is thinking of organizing a pension fund for its officers. It is impossible to over-estimate the significance of this fact. The banks are only leading the van in the movement. As they were themselves the first fruits of the collective or joint-stock principle, so they are the first to illustrate the full scope and development of that principle; and the pension idea is a natural outgrowth from it. And I believe it is destined, either with or without the assistance of legislation, to become a necessary adjunct or essential part of the constitution of every corporate organization in the future.

When this is fully realized it will hasten materially the rapid transference of business now going on from the control of private firms to that of large joint-stock companies, and also hasten the further movement of the merging of the smaller corporations in larger and ever larger ones until the maximum of economy in management, or, what the economists call the minimum cost of production, can be reached. It is all a matter of economy, which is synonymous with progress.

I look forward to the time, which cannot really be very far distant, when the boy, on leaving school or college, will be drafted into the service of one or other of the great industrial corporations of the country, which he will never leave during

the period of his working life, nor until his services have earned for him a sufficient pension to enable him to spend his declining years in rest and comfort. Such an outlook for the worker himself, or, in the event of his premature death, some provision for dependent relatives, would for ever banish the fear of want from his horizon; and who could measure the boon to the world of such an achievement!

Many of us may not, at the first blush, regard the prospect of continuous service for life in one institution as a very desirable one; but a little reflection on the unhappy condition of the world at present, with its continual strife between capital and labor, its problems of the unemployed and the submerged residuum—its universal scramble for existence, with the dreary outlook to the mass of the workers in the face of sickness or the approach of old age, should induce us to welcome any change which promises so much as this, and merely demands in return that every man shall do steady honest work from the beginning till the end of his career. But whether we like it or not, this is the direction in which things are shaping, and for which, if we are wise, we should prepare ourselves.

It may be interesting to us as bankers to try and forecast some of the probable results of this development, in so far as they will affect the business of banking.

Banking has been built up, or rather has grown up naturally out of two conditions, namely, industrial individualism and the credit system.

We see that individualism is being rapidly replaced by what we have called collectivism in the shape of corporations; and when these are properly organized they will have little to do with credit. Given a legitimate business, well organized, and even to-day there is nothing easier than to raise the necessary capital to run it. Why then should it be necessary to borrow at all? Probably the greatest difficulty in all business to-day is the loss and expense entailed by credit, with the many evils that follow in its wake—incompetent and dishonest traders, failures and frauds; and the purgatory of bankruptcy proceedings and the law courts.

We hear every day in business circles of the universal abuse of credit. We are all aware of it, but we are all interested in pushing business on credit, and consequently are largely responsible for this abuse. But this state of things cannot con-

tinue. The expense of credit to the community is becoming too great, and that will eventually kill it.

We thus see that there is not the element of permanence in the two principal factors or conditions which have gone to build up the business of banking, as now carried on. The shoe is already pinching us. We have continually increasing difficulty in finding the right kind of borrowers. In the best of times we have had to find our clientage in the border country which lies between poverty and wealth. We have had to find borrowers with brains and character, minus money, and we have supplied them with the money with which to command labor and do the world's work; but our task is never done, and is always increasing in difficulty, for the more successful we are in our selection of borrowers, the more successful they are in making money, and so making themselves independent of us, and as fast as they become rich and cease to borrow, we are driven back into the wilderness in search of new and hungry aspirants to position and wealth, who will borrow our money, and use it in a probably vain competition with their successful predecessors who are now using their own. I see no element of permanence in this state of things. Between the diminishing return to capital on the one hand, and the increasing difficulty and risk of employing it on the other, we stand a fair chance of being ground between the upper and the nether millstones.

There will never again be the profit in banking that there has been; and it is becoming very evident that for all the really legitimate business there is to be done in this country, we have about three times as many banks as are required. To some people this may not seem a very great evil, but I should like to call attention to one very striking result of it, which may not have attracted the attention of bankers generally. We pride ourselves on the high state of perfection of our banking system, and I think justly so, when we compare it with that of other countries; but bankers are at best only middlemen, and you may easily have too many of them. The point I wish to call your attention to is this, that with about an equal number of traders in proportion to the population, the number of failures in proportion to the total number of traders is more than double in this country what it is in the United States. That is a very striking fact, which I attribute largely to the great completeness and efficiency of our banking organization. It extends credit everywhere; creates a vast army of impecunious traders, who

intensify competition till the margin of profit nearly reaches the vanishing point. Then the weakest fail, and an indulgent community shoulders their losses, and graciously puts them back into a position to begin their bad work over again. This is not a caricature, but a simple statement of fact.

Wise bankruptcy legislation might do something towards abating this evil, but we are not likely to get such a thing when we are not ourselves of one mind about it. But in any case the remedy would take shape in restriction of credit, and reduction in the number of traders, and therefore of bank customers. It seems to me, therefore, that we have reached the stage when by some means or other it would be wise to think of bringing about a reduction in the number of banks.

We are living in an age of rapid transitions, and we shall have to try and accommodate ourselves to them, even if the ultimate prospect be of being wiped out altogether.

There is a great waste in having a great number of comparatvely small competing institutions doing the work which could be done much more effectively and economically by one or two; and while this is true of all industries, it is pre-eminently true of banking. It is perhaps less difficult to manage large than small banks, and it should be proportionately much more economical.

The margin between the deposit and loaning rates is growing smaller every day; profits on exchange and all commissions are becoming so infinitisimal that it would almost require the aid of a microscope to see them; but the absolute expense of management cannot be reduced at all. It can be reduced relatively by a continual increase of business, but the condition of the country does not permit of this, so it seems to me that if we desire to escape from the wasting competition which threatens to prove fatal to the banks and the public alike, we are shut up to a policy of amalgamation. We can see that the smaller institutions, excepting where they have had the advantage of long priority and exceptionally good management, resulting in great accumulations of profits, work at a disadvantage, both to the shareholders and to their staff—more especially the latter; and it will come to be recognized in time that the workers are even more to be considered than the shareholders.

Seventy-five years ago there were thirty banks in Scotland—now there are only eleven, and who can doubt but that the needs of that country are much better served now than

they were then? While it must also be evident that these eleven institutions, or the greater number of them, are likely to be very much stronger, and better able to take care of their employes than their predecessors were. This latter point cannot be too much emphasized. It is quite as much in the interest of the bank employes as in that of the general public that there should be only large and strong banks; consequently every bank officer who realizes the drift of things will further any movement which has for its object the lessening of the number of banks in the country—by amalgamation or otherwise.

Progress lies in this direction, not only for banking corporations, but for those of every other industry. We are beginning to see the weakness and waste of numerous small organizations, and the folly of competition run mad. Indeed, competition, while it has been of much service to the world, is becoming less and less useful, where not absolutely hurtful, and now begins to give evidence that it is approaching the period of its old age. It was chiefly necessary in order to make up for the lack of proper organization. When the latter is achieved we may regard the rapid disappearance of competition with comparative equanimity.

THOMAS FYSHE.

THE LIABILITY OF TELEGRAPH COMPANIES.

Since the year 1835, when Morse invented the recording telegraph and constructed a working model of the instrument, the growth of the telegraph business has been enormous, and its importance in commercial affairs can hardly be over estimated. Some idea of its extent may be derived from the following statistics:—

	Miles of Line.	Messages sent.
Great Britain	47,786	90,432,041
United States	196,115	69,374,883
Canada	35,972	5,405,750

When an institution touches commercial life so closely and so continuously, there are necessarily frequent appeals to the courts, which, by ingenious fictions, that connect the new conditions with the stable principles of Common Law, and many gropings after truth, seek with great earnestness and deliberation, but not always with unanimity of opinion, the exact definition of their respective rights and duties. In Canada questions of the liability of telegraph companies have not been frequent; in England they are perhaps still less numerous, the cause for which anomaly we shall point out later, but in the United States the reports are full of most interesting cases, the study of which assists our own Courts in the solution of many difficult problems.

Before one can properly estimate the extent of the telegraph company's liability, one must have a clear conception of its relation to the public. Telegraph companies are not mere private corporations transacting a business of little importance to the public, but they are corporations created for the public benefit endowed with special privileges, such as the right of eminent domain, and perform the most important functions of commerce, supplementing in cases where rapid transmission of intelligence is necessary the postal service of the Government. Their business intimately concerns the public, and on this account the Government assumes, and has, the right to regulate their business so far as to insure impartiality of service and prevent the exaction of unreasonable tolls.

"It shall be the duty of the company to transmit all "despatches in the order in which they are received, under a "penalty of not less than twenty dollars nor more than one "hundred dollars, to be recovered with costs of suit by the per- "son or persons whose despatch is postponed out of its order; "and the company shall have full power to charge for the "transmission of such despatches, and to receive, recover, and "collect such rates of payment as shall be, from time to time, "fixed by the directors; Provided always, that any message in "relation to the administration of justice, the arrest of "criminals, the discovery or prevention of crime, and Govern- "ment messages or despatches, shall always be transmitted in "preference to any other message or despatch, if required by "any person connected with administration of justice or any "person thereunto authorized by the Secretary of State of "Canada."

So runs the charter of one of our leading companies, which may be taken as typical. Because of this public character possessed by telegraph companies, and because of their enjoyment of a practical monolopy such as that in the hands of common carriers, the earlier American jurists were struck with the analogy between the two classes of business and interpreted the liability of the former as they had that of the latter. Under the common law of England and the civil law, common carriers were under the severe responsibility of an insurer; their sole exception from liability for damage was for such loss as was caused by the Act of God or the public enemy. As the business grew and developed, however, carriers succeeded in so restricting their liability by notices and special contracts, that, at the present day, practically no cases arise under the rules of common law. The bill of lading, the contract between the shipper and the carrier, controls all questions between them, and the intervention of the courts is sought merely to define its terms or to decide on their validity. The shipper still has, however, the abstract right to demand that his goods be carried under common law liabilities, in which event the carrier would become an insurer against any loss save that due to those irresistible forces known in legal parlance as the Act of God, or that inflicted by the King's enemies. In a word, under the common law, carriers are absolutely bound to perform their undertaking, while other contractors are bound only to use reasonable skill and care.

Consequently, when telegraph companies first appeared before the judges they were held to the same strict accountability. They were, by a legal fiction, presumed to be insurers of the messages they transmitted, and were held liable for all damage, whether due to their own fault or error or not.

This contention, however, did not last long in England, as early in 1867 the judges declared:—

"We cannot agree with the judgments given in the Ameri-
"can Courts, that there is any analogy between a consignment
"of goods through a carrier and the transmission of a tele-
"gram." (Playford vs. The U.K.E. Tel. Co., 17 L.T., 243). The American Courts, too, soon abandoned their early position, and in Breese vs. U.S. Tel. Co. (45 Bab. 274), now one of the leading cases, the judge remarked that the business of a telegraph company is so radically and essentially different from the business of transferring merchandise that the peculiar rules by which the carriers are controlled have very little just and proper application. (Compare also Western Tel. Co. vs. Carew, 15 Mich., p. 525.)

In the Province of Ontario the Courts have, of course, followed the jurisprudence in England, and we find it held, in the case of Baxter vs. The Dominion Telegraph Co. (37 Q.B. 470), that the liability of telegraph companies cannot be treated an alagous to or co-extensive with that of the common carrier. In our own jurisprudence in the Province of Quebec, we have two conflicting authorities. First of all, in the case of Clarence Gold Mining Co. vs. Montreal Telegraph Co., which was decided in 1882 (8 Q.L.R., p. 4), Judge Caron held that telegraph companies are not subject to the same rules as common carriers, and that Article 1676 of the Civil Code, by the terms of which carriers may not exempt themselves by notice from liability for damage caused by their fault or the fault of those for whom they are responsible, does not apply to them. In the later case, however, decided in 1898 (Berube vs. Great North West Tel. Co.), Judge Cimon expressed the opinion that telegraph companies are often assimilated to carriers, and then this article applies. Were the point to arise again, we are of the opinion that our courts would follow the settled jurisprudence of England and the United States. It is true that telegraph companies resemble railroad companies and other common carriers, in that they exercise a public employment, and are, therefore, bound to serve all customers alike without discrimination. They have doubtless a duty to the public to receive, to the extent of their

capacity, all messages clearly and intelligibly written, and to transmit them upon reasonable terms, but they are not common carriers, their duties are different, and they are not subject to the same liabilities. Telegraph companies are entrusted with nothing but the order or message, which is not to be carried in the form and the characters in which it is received, but is to be translated and transmitted through different symbols by means of electricity, and is peculiarly liable to mistakes; the message cannot be the subject of embezzlement; it is of no intrinsic value; its importance cannot be estimated except by the sender, and even cannot be disclosed by him without danger of defeating his purpose; it may be valueless if not forwarded immediately, and the amount of damage for the failure to transmit or deliver it has no relation to any value of the message itself, as such value could be disclosed by the message or agreed between the sender and the company. Their liabilities, however, do not differ very greatly from those of common carriers, and, because of their public capacity, they are justly held to a strict accountability for the manner in which they discharge their undertakings. They are not insurers against all damage, but, in default of special contracts, the effect of which will be discussed later, they are liable for their own faults whether of omission or commission. It is incumbent only on the sender or the receiver of a message to make out a *prima facie* case of negligence against the company, and this duty is discharged when facts are shown which raise a presumption of negligence. That certain facts raise such a presumption as against telegraph companies, in apparent exception to the general rule, that the fact of injury merely is no evidence of negligence, has been placed on the ground that such companies are engaged in a public employment which requires a great degree of technical skill and the causes of mistakes and errors are peculiarly within their knowledge (Am. & Eng. Enc., p. 1,031). This rule of evidence was acted on in the Berubé case. The messages as handed to the company read:—"Please send G..*one* truck by fast freight," but as delivered by them it was: —"Please send G.....*ten* trucks, etc." It was held that the mere fact that the message as delivered was different from that entrusted to the company gave rise to a presumption of fault, that discharged the plaintiff from the obligation of making further proof. In Lawrence vs. G.N.W. (1 Q.B. 1) the change of the word "*writing*" to "*waiting*" was also held to be sufficient evidence of negligence. In such cases the usual defence

of the company is that the error was due to atmospheric disturbance beyond their control. It is but just, therefore, that they should be called upon to make that proof, rather than that the plaintiff should be obliged to prove actual fault on the part of the company. As a general rule, where an error is caused by such influences, or other causes beyond the control of the operators, they are aware at the time of the perturbation caused, and have it in their power to note the fact as a precaution in case of future inquiries. They have, further, unusual facilities for disproving negligence, and the plaintiff who is wholly in the dark as to all these matter should not be called upon for affirmative proof in respect to them. (Shearman and Refield, Negligence S. 559.)

Who Can Sue?

The man who goes to a telegraph office, and pays the operator to send a lawful message, which the latter agrees to send, will always have a right of action under his contract. The agreement is to make reasonable efforts to transmit the message with speed and accuracy, and to deliver it with speed and accuracy. Should the company fail, it would become contractually liable to the sender. But is the telegraph company under a similar contractual liability to the person to whom the message is to be sent? The company does not agree with the addressee himself that it will send the message with all reasonable rapidity and correctness, and it could come into a contractual relation with him, therefore, only through the sender, for instance, if the sender were the addressee's agent, or if the sender entered into the contract with the company for the benefit of the addressee. Such a relation would seldom exist between the parties, and it is doubtful whether under any circumstances the addressee would ever have a contractual claim against the company.

Following this reasoning, the English Courts have refused the addressee any recourse whatever. The receiver of a telegram cannot maintain an action for a mistake which has caused him damage. The person who pays for the transmission of a message is the only person who has a right of action in case he is damnified by the negligence of the company or its servants. (Playford vs. U.K.E. Tel. Co.) And in Dixon vs. Reuter (47 L.J. C.P., p. 1) it was held that no action will lie against a telegraphy company at the suit of the receiver for the misdelivery of a telegram, unless there is a contract between him

and the company or possibly fraud on their part.

In the United States, on the other hand, the Courts have, with practical unanimity, sustained the addressee's right of action; but the different theories on which the results have been obtained have been almost as numerous as the courts which obtained them. By a species of legal fiction, such as was employed in the ancient Roman Forum, the judges have sought to represent telegraph companies as the common agent of the parties at either end of the wire, or have based their liability for mistakes on the theory of misrepresentation, or because of their public duty. Our code contains a provision that, we believe, does away with the necessity of such elaborate reasoning. Article 1053 reads:—"Every person capable of discerning right from wrong is responsible for the damage caused by his fault to another, whether by positive act, imprudence, neglect or want of skill." Under this article the addressee of a message, or even the person to whom a message was wrongfully delivered would have an action for the damage suffered. Possibly if our companies were, like the internal lines in England, under the control of the Postmaster-General, for the negligence of whose subordinates there can be no recovery (Mayne Damages, 328), our courts might follow the English jurisprudence and deny the addressee's right of action. But even in England, such cases have arisen so seldom that some authors consider the American rule to be the correct one, and that the English opinion is open to discussion until the House of Lords has spoken (Pollock Torts, p. 357).

We may conclude then that the sender of a telegram may always sue on his contract, and that both the sender and addressee or receiver may sue in tort, and that the company will be liable for the damage suffered.

It would be indeed a great hardship were the addressee or receiver deprived of all right of recovery, when in many cases it is he, and he alone, who suffers the loss. Let us suppose a case where the following telegram is sent to John Smith: —"Come at once, father dying"; and that by some error the message is delivered to John Jones. Being a dutiful son, Jones leaves his business, makes a long journey to his home, to discover his father in the best of health, busy with his accustomed avocations. The English rule would deny him the right to recover from the company the expense to which he had been put; but in America and here he could sue for his full pecuniary loss.

In the case of sentimental damage, that due to mental anguish, sorrow and anxiety, the rule would be subject to certain qualifications, both for the sender and the addressee, for in our law it is now well established that damages by way of *solatium* for wounded feeling cannot be enforced.

Measure of Damage.

In estimating the damage suffered by the plaintiff, the courts confine their examination to those injuries that are proximate to the breach of contract or to the negligence. There is a distinction, however, to be made between the estimation of damages caused by a breach of contract and that of those done by a delict, the fault or negligence of one party.

Article 1074 of the Civil Code reads:—"The debtor is liable only for the damages which have been foreseen, or might have been foreseen at the time of contracting the obligation, when his breach of it is not accompanied by fraud." The theory is that at the time of entering into a contract, the parties make a tacit accessory agreement to be responsible for the damages that then might be anticipated should either default. The English rule, as expressed in the leading case of Hadley vs. Baxendale (9 Exch., p. 34), is practically the same. "Compensation may be had for those results of the breach of contract which a reasonable man looking ahead at the time the contract was made, would foresee as a likely consequence of his failure to fulfil his contract under the known circumstances." As an illustration of this rule, we may cite the case of Belanger vs. Dupras (14 S.C., p. 193). In this case the plaintiff sued to recover $375 damages which he alleged he had suffered by reason of the defendants having failed to obtain a ratification of the deed of sale. The damages arose from the fact that the plaintiff was unable to effect a loan on the property, which loan would have enabled him to settle advantageously with certain creditors, and have prevented the institution of legal proceedings against him, and saved him law costs and other expenses. The court held, however, that such damages were not the immediate and direct consequence of the defendant's delay, and were not recoverable. In the Pacific P.T. Co. vs. Fleischner (66 Fed. Rep., p. 899), when the defendant delayed a telegram an hour, by which delay the plaintiff lost his recourse against an insolvent debtor, the court held that the actual loss of the plaintiff was directly due to the delay, and might have been foreseen

at the time the contract was entered into; judgment was accordingly rendered against the company. This rule leaves to the judge in the exercise of his discretion very great latitude, and sometimes the estimation of what a reasonable man would foresee goes very far in condemning the companies. In W.U.T. Co. vs. Birge Forbes Co., decided in Texas in 1902, the message, which was not delivered promptly, read:—"All right. Sell bluffing, each described amply." The court held that a reasonable man would have foreseen as a likely consequence of the failure promptly to deliver this message, that the seller thereby would lose the sale of 200 bales of cotton at 11⅜ cents per pound; and we at once conclude that the judge came of a family of clairvoyants.

The rule was applied to the Quebec cases with more fairness. In the Lawrence case the telegram from New York read, "Writing you to-night," and was delivered, "Waiting you to-night." The typical reasonable man would undoubtedly consider that the result of this error would be a useless trip to New York on the part of the addressee. The court, accordingly, allowed the plaintiff $30. In the Berubé case, too, the proximate damage due to a change of "one" to "ten" is easily estimated, and might as easily have been foreseen.

One is met with more serious difficulty when the telegram is unintelligible to the operator, whether in cipher or otherwise. In an English case (Saunders vs. Stephens, 41 L.J.C.P., p. 682) the company negligently omitted to send a cipher message, in consequence of which the plaintiff lost a sum of money that he would have obtained for a commission upon an order to which the message related. It was held that the plaintiff could not recover such sum of money from the defender, but only nominal damages. When the action is, as in England and in many of the States, one under the contract simply, this is the logical and necessary consequence of the rule that damages must be foreseen. When the company has no information as to the character, importance or urgency of the message, it is obvious that they cannot foresee any particular damage, and the sender or addressee should be restricted to a nominal judgment or, at most, the price paid for transmission. The rule is, however, qualified when the company can gather from the terms or general character of the message that it is of importance (Dixon vs. W.U.T. Co., 3 N.Y. App. Div., p. 60). We have been able to discover no jurisprudence on this point, but it might safely be presumed that Banks should be allowed to recover full

damages for errors in the transmission of messages although they be in cipher, for the companies would have every reason to believe that the business of such institutions is of considerable importance.

But as we have already pointed out, we believe that in this Province at least the companies would be liable in tort, that is, for fault and negligence, as well as for their breach of contract. Since telegraph companies are bound by the terms of their charters to transmit without discrimination every message given to them, any failure in the premises would be a tort, and the person suffering damage thereby should have an action entirely distinct from that for the breach of contract. The English Courts, it is true, do not recognize this action, and deny the addressee all right, because he bears no contractual relation to the company. But if he be a stranger to the company, he is as much entitled to reimbursement for any damage he may have suffered by reason of their negligence, as is the man who is knocked down by a street car, or falls on a slippery sidewalk. If every one is responsible for the damage occasioned to another by his fault, negligence or want of skill, why should telegraph companies be excused?

In the estimation of damages caused by a delict, the terms of article 1074 cannot be applied with any strictness, for one cannot conceive of a tacit agreement being entered into between the parties when the fault is committed. Accordingly the person guilty of negligence should be held strictly to repair all the damage he has caused (5 Mignault, p. 34). The same rule applies under the English common law. "The liability of a wrong-doers for his act is determined by the extent to which the harm suffered by the plaintiff was the natural and probable consequence of the act. (Pollock Torts, p. 501.) That author argues that this is also the true measure of the liability for breach of contract; but Hadley vs. Baxendale is the settled law on that point. An American judge adds that in Tort the defendant's liability for a wrongful act is not limited to consequences which as a reasonable man he should have foreseen, but extends to "all the injurious results which flow therefrom by ordinary natural sequence without the interposition of any other negligent act or overpowering forces." (McPeek vs. W.U.T. Co., 107 Iowa, p. 356, 1899.) Applying these principles, we conclude that a telegraph company will be liable for all proximate damages whether the message be in cipher or otherwise unintelligible or not.

Limitation of Liability.

Our remarks so far have referred to the liability that rests upon the companies under the common law alone, and the directors of these institutions are too experienced and clever to bear such a burden a moment longer than is necessary. They accordingly restricted their liability by entering into a special contract with their customers by virtue of clauses printed in their telegraph forms, that read as follows:—

"It is agreed that the company shall not be liable for "damages arising from failure to transmit or deliver, or for "any error in the transmission of unrepeated telegrams..... "whether happening from the negligence of its servants or "otherwise.....beyond the amount received for sending the "same."

It is now well established that when the sender makes use of such a form he enters into a special contract with the company, and if the condition be legal, he is bound by its terms just as a shipper is bound by the clauses in a bill of lading or a passenger by the conditions printed on his ticket. The only question we must solve is whether such a condition is valid and binding.

The leading case here is Lawrence vs. G.N.W Tel. Co. (1 Q.B., p. 1), in which it was held, "Where there is evidence of negligence.....in the transmission of the despatch, the company will not be protected.....by the fact that the blank form contained a printed condition to the effect that the company would not be liable for damages arising from any error in the transmission of an unrepeated telegram." The Court of Appeals, composed of Lacoste, C. J.; Bosse, Blanchet and Tait, was unanimous, and its judgment is based on Articles 989 and 990 C.C. "Toute convention," says the Chief Justice, "Que l'affranchit des soins qui excluent la faute est immorale et inadmissible, et contre l'essence meme du contrat. Notre code veut que toute personne soit responsable du dommage causé par sa faute et par la faute de ceux dont elle a le controle."

At the time of that decision, the law of carriers was interpreted in the same way, and it was uniformly held in this Province that carriers could not relieve themselves from liability for negligence even by special contract entered into with the shipper. Since then, however, much uncertainty has been brought into our jurisprudence by a judgment of the Supreme Court in a case of Glengoil vs. Pilkington, in which it was

held that, so far as marine carriers are concerned at least, there is nothing in the law of the Province of Quebec to prevent a carrier making a contract, the terms of which will relieve him from liability for his own or his servants negligence. Although that expression of opinion was a mere *obiter dictum*, the Court of Review in a more recent case of Mathys vs. Liners (25 S.C. 426) has definitely adopted the ruling, and maintained the validity of a clause in the Bill of Lading that relieved the carrier from liability for loss occasioned by the theft of its servants. The court was composed of Taschereau, Pagneulo, and Loranger, the last named having in effect dissented from the judgment, although no mention of his dissent appears in the report, because, as there was no further appeal, he made no note of his dissenting opinion.

The jurisprudence in favour of the validity of such clauses has long been settled in England; but in France, whose decisions have more weight in such matters in our courts, the jurisprudence was formerly not uniform, and even at the time when the Glengoil case was decided in the Supreme Court the majority of the decisions in the Cour de Cassation were against this interpreation of the law, as being contrary to public order and good morals. However, of late years it seems that the French Courts have definitely adopted the English ruling, so far at least as marine carriers are concerned. In the Pandectes Franciases, 1902, I., 513, the reporter makes the following comment:—

"Ces arrets sont contraires à la jurisprudence, jusqu'ici survie par la Cour de Cassation, et marqueraient, si la cour supreme devait persister dans cette doctrine, une importante évolution, qui aurait les plus graves conséquences au point de vue des relation commerciales; trop avantageuses pour les armateurs, la nouvelle doctrine laisserait les chargeurs à la merci des Compagnies de navigation maritimes, ils n'auraient plus aucun moyen pour exiger d'elles l'exécution du contrat de transport, et devraient s'en rapporter entièrement à leur bonne foi."

The Supreme Court, in changing our jurisprudence under this article, has declared that notices referred to in Article 1676 (supra) do not amount, to a special contract, and that therefore, the article does not prevent the carrier from stipulating in the special contract his freedom from liability for negligence. In following the English authorities, we should certainly accept their reasoning on this point, and it may be

pointed out that when the Carriers Act of 1830 provided that no public notice or declaration should be deemed to limit the carrier's liability at common law, but nothing in the Act should affect any special contract between the parties, it was invariably held that a special notice brought to the knowledge of the shipper, amounted to a special contract (Walker vs. York and North Midland, 12 L.J. Ex., p. 10), and the authors and jurisprudence are unanimous in the opinion that there is no substantial difference between the notices published by a carrier and a special agreement entered into upon the delivery of goods to him.

(Smith's leading cases, American Edition, p. 403.)

(McManus vs. Lancashire, 24 L.J. Q.B., and Peek vs. North Staffordshire, 34 L.J. Q.B. 241.)

(Angell on Carriers, sect. 247.)

However, we need not go further into this question at present, as it is not strictly applicable to the liability of telegraph companies.

The jurisprudence, as settled in the United States, has maintained the earlier jurisprudence of England and France, and has refused to adopt the liberal interpretation of such contracts, which the English judges deplored but were unable to remedy, and in the American Courts a clause that pretends to free the carrier from liability for his own or his servants negligence is held to be invalid as against public order.

The rule as to land carriers is quite different in England, where it was discovered that the railways were taking advantage of the freedom of contract given them under the Carriers Act 1830. The Railway and Canal Traffic Act, by which it is enacted that the carrier cannot relieve itself from liability for negligence, and that restricting clauses in its shipping bill must be just and reasonable, was passed in 1854. In the interpretion of what is just and reasonable, the English Courts are materially curtailing the carrier's right to contract itself out of such liability. By our own Railway Act, it is enacted that "Every person aggrieved by any neglect or refusal in the premises shall have an action against the company, from which action the company shall not be relieved by any notice, condition or declaration, if the damage arises from any negligence or omission of the company or of its servants."

It was at first contended by the railway companies that "notice, condition or declaration" did not cover a special contract, such as is effected by a shipping bill, it had the right to

relieve itself from liability for negligence. However, our jurisprudence is settled in the contrary sense (Vogel vs. G.T.R., 11 S.C.R., and Robertson vs. S.C.R., 611). In the last case Sir Henry remarked, "This is an enactment which ought not to be extended beyond its literal meaning, and that is clearly confined to the prohibition of any *contract* relieving the company from liability for negligence." The English ruling is the same. (Peek vs. The North Staffordshire, 32 L.T. 280.) It may be contended that this jurisprudence is based on special statutory authority, as both the Railway and Central Traffic Act make special provisions for the restriction of the carriers' rights. However, under the common law in France, without any such statutory authority, the same rule is upheld. Dalloz, 1900, 1-433. "La clause de non-responsabilité insérée dans les tarifs des Compagnies de chemins de fer a pour effet de mettre à la charge de l'expéditeur ou du destinataire la preuve d'une faute imputable à la Compagnie (N.B. foot-note).

(In D., 1901, 1., 190; D., 1902, I., 39; D., 1903, I. 36, will be found similar holdings.)

It becomes essential to inquire why this distinction is made between carriers by land and carriers by water. Presumably no explanation is necessary for the distinction made in England, because the powers of the carrier by land are specially curtailed by statute. In France, however, an explanation is given, which, however, unsatisfactory it may seem in these days of rapid communication, must be accepted as the only possible one. In the Pandectes Francaises, 1902, I. 513, we read:—

"Cette exception a été motivé par la situation toute particulière du capitaine qui échappe à la surveillance de l'armateur; de plus elle n'a pour effet de priver le chargeur de tout recours, car le captaine, qui commet une faute, encourt une responsabilité personnelle. Aussi la jurisprudence a-t-elle strictement limité cette exception; c'est ainsi qu'elle n'a reconnu que l'effet de renverser la charge de la preuve aux clauses par lesquelles le capitaine, convient qu'il ne repondra pas des fautes des hommes de l'equipage."

Pand. F. 1900, 1, 225.

So far as common carriers are concerned then, it is established that both in England, France and our own Province a marine carrier may contract himself out of liability for damage occasioned by the negligence of his servants, but that a carrier by land cannot do so.

We have already seen that telegraph companies are not

common carriers, and are not subject to the same rules, and it is accordingly argued that since carriers, who are held to a strict accountability, may relieve themselves from liability for negligence, *a fortiori* a telegraph company should be granted the same privilege.

In England, where, as we have already pointed out, the internal telegraphs are under the control of Government officials, and actions for negligence cannot be instituted, the jurisprudence is very limited, the leading case being McArthur vs. Electric Telegraph Co. (Supra), in which it was held that a clause to the effect that the company would not be liable for mistakes in the transmssion of unrepeated messages from whatever cause they might arise, was a reasonable condition, valid and binding on the sender of the telegram. The judge argues that if a man wants to send a message by telegraph which shall be correctly read, he would have it repeated; then if repeated, it involves more labour and he must pay for it; he must pay more for a repeated than for an unrepeated message, and, of course, he must pay the company more for taking on themselves the risk of the message not going rightly considering the accidents to which things are liable. It is obviously reasonable that the man who requires either greater labour or that the company should undertake greater risks should pay something for it.

The late Mr. Justice Gray, delivering the judgment of the majority of the Supreme Court in the leading American case, made use of much the same arguments. By such regulations, he pointed out, telegraph companies do not undertake to wholly exempt themselves from liability for negligence; but only require the sender of the message to have it repeated and to pay half as much again as the usual price, in order to hold the company liable for mistakes or delays in transmitting or delivering or for not delivering the message, whether happening by the negligence of its servants or otherwise. (Primrose vs. Tel. Co., 154 U.S., p. 1.) The public are admonished by the notice that in order to guard against mistakes in the transmission of messages, every message of importance ought to be repeated. A person desiring to send a message is thus apprised that there may be a mistake in its transmission, to guard against which it is necessary that it should be repeated. He is also notified that if a mistake occur the company will not be responsible for it unless the message be repeated. There is nothing unreasonable in this condition. It gives the party sending the message the option to send it in such a manner as

to hold the company responsible, or to send it for a less price at his own risk. If the message be unimportant, he may be willing to risk it without paying the additional charge. But if it be important, and he wishes to have it sent correctly, he ought to be willing to pay the cost of repeating the message. This regulation, considering the accidents to which business is liable, is obviously just and reasonable. It does not exempt the company from responsibility, but only fixes the price of that responsibility, and allows the person who sends the message either to transmit it at his own risk at the usual price, or by paying in addition thereto half the usual price to have it repeated, and thus render the company liable for any mistake that may occur. (Camp vs. Western Union Tel. Co., 1 Met (Ky.), 164, 168.)

The supporters of this doctrine proceed further and call attention to the fact that telegraph companies undertake a very difficult task, and one that is peculiarly liable to errors and mistakes. The operator is separated a distance of many miles from the paper on which he writes, so that his eye cannot discern and correct the mistakes committed by his hand. The electric fluid that is used as the medium of communication is liable to perturbations arising from thunder storms and other natural causes. It is, therefore, obvious that entire accuracy cannot always be obtained by the greatest care; and that the only method of avoiding error is to compare the copy with the original, or, in other words, that the operator to whom the message is sent should telegraph it back to the station whence it came.

It will be noticed at once that the whole of the argument in favour of the validity of such restrictive clauses as that which requires the repeating of telegrams is founded on entirely false premises. Its supporters assume that the telegraph company has a right to bargain with its customers about the correctness or incorrectness, the accuracy or inaccuracy of its work, ignoring the very important fact that it is bound by its charter to discharge its duties with speed and accuracy. What a travesty of incorporation would be a charter that authorized a company to transmit telegrams for the public accurately or inaccurately as might happen to be most convenient for its operators! So long as the companies remain under a statutory duty to transmit messages for the public, they should not be allowed to make, or to be protected by, a bargain as to the care with which they discharge such an obligation.

This position does not impose upon them an undue hardship. All that is required is that they be guiltless of negligence.

If by unforseen accident or sudden electric storms a company is prevented from transmitting its messages promptly or accurately, it will be exonerated. But merely because this business is peculiarly liable to error is no reason why the company should be liberated from the obligation to use due care, that rests upon every person in every walk of life. On the contrary, the risks of the business should be valid ground for demanding still greater care and attention on the part of the company and its employees. The business of telegraphy is no longer in a crude state, it is no longer subject to accidents which the operator is unable to forsee and prevent, and now after seventy years of experience with all the adventitious aids of modern science it is practically perfected in all its parts, both as to suitable instruments and the employment of expert and experienced operators. "Without rendering them liable as insurers or holding them for the action of the elements over which they have no control, sound judicial reasoning does demand that they should be required to perform their duties in a careful and diligent manner, and that they should respond for the negligence of their servants." (Reed vs. W.U.T. Co., 135, No. 661.) In spite of the decision of the Supreme Court in the Primrose case, from which judgment the present Chief Justice and one of his colleagues dissented, the great majority of the State jurisdictions hold that to allow a telegraph company to relieve itself from liability for negligence would be against the rules of public policy (Am. and Eng. Enc., p. 1,040). In some jurisdictions, it is true, the judges have steered a middle course, and recognized such clauses as valid, except in cases of gross negligence or wilful default (Ibid). But they hold the companies to a strict accountability, and the omission of one word from the message has been held to constitute gross negligence. (Dixon vs. W.U. Tel. Co., 3 N.Y. App. Div., p. 60.)

The arguments advanced by the English Courts in the McArthur case are ably answered by Cockburn, C. J., in Playford vs. U.K.E. Tel. Co., decided in 1867. It was pleaded that the regulation requiring the repetition of telegrams was a reasonable one that should be allowed to protect the company even against negligence. The judge, however, points out "that the company are not in the position of a company

exercising powers incidental to ordinary rights of property; but they are exercising powers which they obtain by statute. They are empowered by the statute to erect works in *solo alieno* without the consent of the persons to whom the soil belongs, and then, in consideration of this, the statute requires that they shall keep the telegraphic establishment open at all times for all persons desirous of transmitting messages for certain charges imposed by the statute subject to reasonable regulations, and that statute having imposed upon them this obligation, and having in consideration thereof empowered them to make a maximum charge, they annex the condition that they shall not answer for negligence. That is to say that they will not undertake the duty of reasonable care in the discharge of the statutable obligation. How is that consistent with the statute as being a reasonable obligation? If a message were transmitted under ordinary contract to transmit, there would be involved an ordinary obligation to use reasonable care and diligence. The statute says that they shall transmit messages; and it must be understood that it means that there is to be reasonable care and diligence in the discharge of that duty. They say that they will take a maximum charge and transmit the messages for such charge; but that they will not use reasonable care and diligence. I cannot but think that if the plaintiff were otherwise entitled to maintain action this condition would not stand in his way."

Should the question arise in England again, the reasoning of Cockburn would undoubtedly have great weight, corroborated as it is by the preponderance of judicial opinion in the neighbouring Republic. Our own courts have always preserved the salutory rule that every man must respond for his own or his servants' negligence, and there is every reason to believe that the decision in Laurence vs. G.N.W. would be followed in spite of the disturbing element of the analogy that is drawn between the business of carriers and that of telegraphy.

We conclude then that the telegraph company, being a public corporation under the statutory duty of transmitting all telegrams offered it, although not an insurer against all loss, is nevertheless liable, not only to the sender but to the addressee and even the receiver, whenever there has been negligence, and that, too, in spite of special contracts requiring the repetition of telegrams to insure their accurate transmission.

A. RIVES HALL.

SECRET COMMISSIONS RECEIVED BY CLERKS. AND AGENTS.

By Charles M. Holt, K.C.

A good deal of light has been thrown on the aspect the law assumes towards agents who accept secret commissions—a practice as universal here as it is in England, and equally to be condemned here as there—by a recent decision of the English Court of Appeal.[1] The contemplated proceedings against the Equitable Directors in the United States makes the matter one of more than usual interest. The facts in the English case were as follows:—

The plaintiff employed the defendants, a firm of auctioneers, to sell some pictures and other articles for him by auction upon terms which were set out in their letter to him, as follows:—"Referring to our interview with you as to the sale of your furniture and effects, we now beg to confirm the terms arranged, viz., five per cent. on all lots sold and all out of pocket expenses in addition, which includes advertisements, printing and posting bills, printing and circulating catalogues, porters' time, postages, use of sale-room, etc. The cost of removal from the various places, ncluding clerk's time checking, to be £4 10s 8d. Use of sale-room to be 10s per week to date from sale. Minimum commission on sale for personal services to be £20. Any other work, price to be arranged." The defendant, in pursuance of the said employment, instructed a firm of printers to print the posters and catalogues. The printers did the work and debited the defendants' account with the sum of £13 9s, that being the price which they would have charged to any ordinary customer. The printers, however, allowed to the defendants, because they were auctioneers, the trade discount of 10 per cent., amounting to £1 6s. 10d. The defendants also advertised the sale in certain newspapers, and upon the gross payments for the advertisements, amount-

[1] Hippisley vs. Knee Brothers, L.R., 1 K.B., p. 1 (1905).

ing to £14 6s 4d, they received from the newspaper proprietors a discount of 10 per cent., amounting to £1 8s 7d. The sale took place in due course, and the plaintiff's goods were sold for an aggregate amount of less than £400, whereupon the minimum commission of £20 became payable. The defendants, in the account sent by them to plaintiff, charged him the full amount of the printers' bill, £13 9s, and of the charges for newspaper advertisements, £14 6s 4d, without making any rebate to him in respect of the discounts allowed to them, and, having deducted from the gross sum realized by the sale the sum of £20 for minimum commission with the two above mentioned sums of £13 9s and £14 6s 4d, and a further sum for money lent, they paid the balance to the plaintiff. Subsequently, the plaintiff having discovered the fact of the defendants having received the said discounts without disclosing the fact to him, brought his action in the county court to recover the two sums of £1 6s 10d and £1 8s 7d, and also the £20 minimum commission, on the authority of Andrews v. Ramsay.[1] At the hearing, evidence was given of a general custom for printers and newspaper proprietors to deal with auctioneers as principals, and to allow them as trade customers a trade discount off their retail charges, the whole of the retail price being charged by the auctioneers against the vendors. The defendants honestly believed that they were entitled under this custom to receive the said discounts and retain them to their own use. The plaintiff admitted that he knew there was a custom for newspaper proprietors to allow a discount to auctioneers, but did not know the amount of it, or that the defendants would receive such a discount in the present case. He was not aware that there was any custom for printers to allow such a discount, or that the defendants would receive it from the printers. The county judge held that the defendants in contracting with the printers and newspaper proprietors acted as principals and not as agents for the plaintiff, that the plaintiff was not damnified by their receipt of the discounts, and that the defendants were consequently entitled to retain them. He accordingly held that the plaintiff could not recover any one of the three sums claimed. The plaintiff appealed, and the judges in appeal dealt first with that portion of the plaintiff's claim, which related to the two sums of £1 6s 10d and £1 8s 7d, which it

[1] (1903), 2 K.B. 635.

was agreed were the amounts of the discount which the defendants, the auctioneers, received from the printers and the newspaper proprietors respectively on account of the printing and advertisement orders executed in connection with the sale which he conducted for the plaintiff. They point out that the employment of the defendants was in writing, and although the alleged custom of auctioneers to receive such discounts for their own use was very material in connection with the question of *bona fides*, it was sufficient in order to determine what the rights of the parties were in that particular case to look at the terms of the contract itself. The terms, which were confirmed by the defendants' letter of July 25, were, "five per cent. on all lots sold, and all out of pocket expenses in addition, which includes advertisements, printing and posting bills, printing and circulating catalogues, etc. . . Minimum commission on sale for personal services to be £20." They drew attention to the provision that there was to be a minimum commission of £20. The defendants, they said, thereby insured themselves against the risk of their work being unremunerative, the intention being that they were to look to that commission alone for the remuneration of their personal services, including their services in connection with the printing and the advertisements. So that even if there could have been a doubt as to the meaning of the words "out of pocket expenses," the provision as to the minimum commission made the matter free from doubt, and rendered it abundantly clear that the defendants were to have the £20 commission and their actual out of pocket expenses, but nothing more. Therefore upon that ground, wholly apart from the broader ground, the plaintiff was held entitled to recover the two sums of £1 6s 10d and £1 8s 7d, and to that extent the judgment of the county court judge was reversed. The auctioneers contended that the court ought to allow these discounts to them upon the ground that the custom for auctioneers to take them was so general that the plaintiff must have known, or ought to have known, that they were in fact being received. The judges considered that if to the knowledge of the principal they were being received by the agent, the profit ceased to be secret, and the question would not arise; but where there is no knowledge the agent ought to account, and it is only honest that he should conduct his business on the principle of his liability so to account. The two authorities cited by defendants were, they held, cases in which

it was obvious that the principal knew that the agent was being remunerated by third parties; therefore they in no way conflicted with the principle laid down. *"Unfortunately,"* said Lord Alverstone, *"there appears to prevail in commercial circles, in which perfectly honourable men desire to play an honourable part an extraordinary laxity in the view taken of the earning of secret profits by agents... The sooner it is recognized that such secret profits ought to be disapproved of by men in an honourable profession, the better it will be for commerce in all its branches."*

The other claim made by the plaintiff in the case, and in respect to which the Court of Appeal did not call upon the defendants' counsel, was that in consequence of the defendants' conduct they were not entitled to retain the £20 which they had deducted from the gross proceeds for their commission, and in support of that claim, they relied upon the judgment of the English Court of Appeal in Andrews v. Ramsay,[1] where it was held that a dishonest agent could not recover any commission at all. Lord Alverstone said he desired, speaking for himself, to say that in the Hippisley case he was satisfied that there was no fraud, but that what was done by the defendants was done under a mistaken notion as to what they were entitled to do under the contract; they thought that by reason of the alleged custom they were entitled to deduct from the proceeds of sale the gross amounts of the advertising and printing bills. That was, in his opinion, enough to differentiate that case from Andrews v. Ramsay,[1] where the Court was dealing with an agent who acted with downright honesty. But plaintiff went further, and contended that if there had been a failure by the agent to account for a secret discount received, even though that failure might have been due to a *bona fide* mistake, he was not entitled to receive any commission or remuneration for his services from the principal. The court said they were not prepared to go that length. "If," said Lord Alverstone, "the court is satisfied that there has been no fraud or dishonesty upon the agent's part, I think that the receipt by him of a discount will not disentitle him to his commission unless the discount is in some way connected with the contract which the agent is employed to make or the duty which he is called upon to perform. In my opinion, the neglect by the defendants to account for the dis-

[1] (1903), 2 K.B. 635.

counts in the present case is not sufficiently connected with the real subject-matter of their employment. If the discount had been received from the purchasers, the case would have been covered by Andrews v. Ramsay [1]; but here it was received in respect of a purely incidental matter; it had nothing to do with the duty of selling. It cannot be suggested that the plaintiff got one penny a lower price than he would otherwise have got."

Under the statutory provisions and common law regulating agency contracts in the different provinces of the Dominion, it seems clear that an agent is bound to account to his principal for all monies received under authority of his mandate; and this would seem to cover secret commissions received.

The principle governing the alleged transactions of the Equitable Directors would be an analogous one.

BANK EXAMINATIONS IN THE UNITED STATES.

By Joseph Chapman, Jr.

The subject of examination of banks has received quite a little attention of late, through the failure of some institutions where the national bank examiner has been held to be at fault by the public generally. The time has come when the bankers of the country ought to look the question of examination squarely in the face and ascertain whether or not it is possible for the department at Washington to give us any better or different examination than it is now doing. Among many bankers the national bank examination has come to be looked upon more or less as a farce. There is no question but that the directors of banks feel that as long as the national bank examiner reports that the bank is all right, there is no cause for them to worry, and the depositors feel, likewise, that their money is safe. The reason both the directors and depositors feel safe is probably because they are familiar with section 5240 of the Revised Statutes of the United States, which states that "the Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every banking association, who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath, and shall make a full and detailed report of the condition of the association to the Comptroller."

The office of the Comptroller of the Currency is a political office. The selection of a man to fill this place is left to the President of the United States, and he may or may not be a man who is fitted by education, training, and bent for that most important position. I do not think that the importance or the possibilities of this office is appreciated by the bankers and by the public generally. It is a position calling for the highest order of executive ability, of discretion, of tact, and of

backbone. It is a position that should pay a salary commensurate with the responsibility of the office. At the present time this is not the case. The salary is small, and the man filling this position is very apt to correspond with the salary. The country has been most fortunate in obtaining men of high character, who have filled this post with great honor to themselves and to the banking profession. However, as long as the office is a political one, given as a reward for labors performed, there is danger that the man who holds this important position will be susceptible to influence.

But the course of politics in the appointment of the Comptroller of the Currency is secondary to the far more important matter of the appointment of the national bank examiners themselves. No matter how good a man may be in the office of Comptroller, he is powerless to appoint his assistants. These men are nominated and appointed by the United States senators from the different states, and the only qualification that appears to be necessary to get the appointment of national bank examiner is that the party applying should have a political pull and influence with the senator. The question of ability and fitness is lost sight of in the eagerness of the senators to reward their friends and scatter the plums to the faithful.

To a convention of bankers this statement is no news. To the public generally it may be. In anything I say here to-day I do not wish to be classed as sensational or revolutionary, but I believe it is time that we talked these matters over seriously, in order that some method may be devised whereby the entire machinery of the control and supervision of national banks of this country may be removed from politics, so that we can get men, from the Comptroller down, who shall be selected simply for their ability and fitness to perform the work, men who shall be kept in office as long as their work is satisfactory, and men who shall be paid a salary commensurate with the responsibility they assume and the labor they perform.

It is to the credit of the national banking system that it has forged to the front and made itself a power in this land, in spite of the loose methods provided by the government for its supervision and control. It is to the credit of the officers and directors of national banks that their institutions are in such excellent shape, regardless of the namby-pamby national bank examination.

In order that we may understand how ridiculous and silly the performance called a national bank examination really is, it would be necessary for us to read a few figures.

According to the report of the Comptroller of the Currency, dated March 14, 1905, there were in operation in the United States 5,587 national banks. Each bank is required to be examined twice a year, which makes a total number of examinations in one year of 11,174. The totals represented by these 5,587 banks are as follows:—

RESOURCES.

Loans and discounts	$3,888,233,694.79
U. S. and other bonds	1,216,374,365.74
Banking house furniture and fixtures and other real estate	148,663,931.83
Cash and due from banks	2,054,855,693.80
	$7,308,127,686.16

LIABILITIES.

Capital	$ 782,487,884.67
Surplus and profits	603,355,715.08
Circulation	430,995,523.00
Bonds borrowed	34,819,906.60
Deposits	5,427,239,316.68
Other liabilities	29,029,340.04
	$7,308,127,686.16

To examine and audit and report to the boards of directors and to the depositors in these 5,587 banks, there are employed some seventy-five men, on a commission basis. In other words, the examiner gets a certain amount of money for the capital and the total footings of any bank. If he can examine a bank with $2,000,000.00 assets in one day, it s to his interest to do so, for he gets no more money did he take a week, two weeks or three weeks to do this work. This is probably one answer to the question which is heard so many times when anything goes wrong in a national bank, "Where was the national bank examiner?" Most likely he was consulting his railroad schedule, seeing how soon he could get out of the town and make another commission.

To any thinking man, the idea of seventy-five men making 11,174 examinations of banks whose total deposits amount to $5,427,239,316.68, would be ridiculous were it not that it is a most serious question. As stated before, it is not even neces-

sary that these seventy-five men have any knowledge or experience in auditing; they simply have to have a political pull.

In ordr to satisfy myself as to the length of time it would take an expert accountant to do similar work, I have asked a firm of New York accountants for some figures showing the time necessary to make an audit of the accounts of a bank of the following total footings:—

	Accountants.	Assistants.	Time required.
$ 200,000.00	1	1	10 days
500,000.00	1	1	18 days
1,000,000.00	1	2	25 days
2,500,000.00	1	3	30 days
5,000,000.00	1	4	35 days
10,000,000.00	1	4	45 days

Of course this estimate is only given approximately, and is intended to represent the time it would take this firm of accountants to render a report that would be satisfactory to themselves and to the board of directors that hired them to make a first examination. But owing to the changes in the national bank examiners, a good many of the examinations given national banks are "first" examinations. This firm of public accountants advise me that the time would be considerably lowered on the following examination, if the examination occurred within a six months' period.

In my own bank the national bank examiner appears on a Saturday noon and has finished by the following Friday afternoon. He brings no assistant with him, and appears to be quite satisfied that everything is all right. I note that by the figures given me by the expert accountant, it would take one man and four assistants forty-five days to make the examination of a bank considerably smaller than the one of which I am an officer. In Minneapolis we have a state bank with total footings very similar to our own, and in talking with the state department I find that they send two men to make this examination, and it takes the two men three weeks. Wherever I have been able to make a comparison between a state examination and a national bank examination, I have always found (at least in the state of Minnesota in the past four years) that the state examination was superior to the national examination. But as I believe in talking only about those things that a person actually knows, I have not attempted to touch on the subject of the examinations made by the state department. It is

no doubt, subject to improvement, but I believe that in Minnesota, at least, it is on a higher plane than the national bank examination. This is due, in my opinion, largely to one thing, and that is that whereas the national bank examiners are on a commission basis, the size of their commission depending upon the size of the bank they examine, the salary or compensation of the state examiner is fixed by law at a certain sum per year, putting them on a regular salary basis, so that it is a matter of indifference to the state examiner whether it takes him one day or ten days—he stays by the bank until he is satisfied with the examination.

It is time for the directors of national banks in this country to disabuse themselves of the idea that an examination by a government official is all that is necessary in order that they should know that the bank of which they are directors is in the condition reported by the active officials of the bank.

It would be worse than idle talk were a person to make the statements made above and propose no remedy. They are practical reforms that can be adopted in the present mediæval bank examination that would materially lessen the stockholders' liability and increase the depositors' safety.

First and foremost, the fee system should be abolished. The examiner should be appointed by the Comptroller of the Currency without dictation from political sources, placed on a regular salary basis, and there should be enough bank examiners appointed to do the work properly. What this number should be, I would not even care to guess, but I am absolutely certain that the number now employed is so small in comparison with the number that should be employed, that were this plan to be put in effect, there would be nearer two hundred and fifty than seventy-five.

Secondly, these bank examiners should be appointed because they have some ability; because they are fitted for work of this kind, and they should have suitable provision made for assistants. In my own bank not very long ago it took three expert accountants three weeks to do what it took a government examiner less than one week to do. It is impossible for a man to intelligently examine a bank of any size without taking an assistant in with him, for the reason that while the examiner is examining one department in the bank, the officials, if they care to, can switch the collateral or the assets in such shape as to defy and bewilder the most astute examiner. This is avoided

by taking a requisite number of men at the time the examination is started, practically taking control of the bank when it is in a normal condition.

The practice of the national bank examiner going over the paper to ascertain its value with an officer of the bank who made the loan is an absurdity. This is where the directors' part in the bank should be made prominent. The directors' names are loaned to banks to give it an air of stability, of strength; yet directors sign sworn statements, knowing absolutely nothing of their own knowledge of the figures therein contained, and the bank examiner seldom, if ever, consults them as to the value of the paper representing the loans of the bank. In every examination either the board of directors or a committee from the board of directors should be called in by the national bank examiner, and he should question them concerning the value of the paper and not rely entirely upon the statement made him by the active officer who made the loan. It is not a felony for an officer of a national bank to deceive or lie to a national bank examiner, unless said officer is put upon oath. It would do the directors of a bank good to go over the collateral personally with the examiner once every six months, and I know of no practical way that they could keep as closely in touch with the character and quality of loans made by banks of which they are directors than in this simple way, and I am certain that it would add a great deal of value to the government examinations.

Regarding the signing of the names on the sworn report, I doubt if there are many directors who ever take the trouble to look at the books of the bank and satisfy themselves that the figures represented on that statement are correct.

I doubt if the majority of directors in national banks understand that the individual deposit ledgers are not audited at all by the national bank examiners. The figures on the pages are gone over, footed up, but no verification is ever asked from the depositors as to the correctness of the balance. This is done in the case of bank accounts, but not in the case of individual deposits, nor would it be practical, under the present way of doing business, for the national bank examiner to even attempt to audit the individual ledgers. In this department and in the collection department the public accountants spend most of their time,—the departments that are practically avoided by the government examiner. The usual place for

defalcations to exist among bank clerks is on the individual ledgers. The temptation is made easy by the use of the pass book system. There is no more reason why a reconcilement should be taken for a bank balance as to the correctness of the amount of money due them at the end of any one month than there is to take a reconcilement from an ndividual depositor. Both represent money, both represent trust money. The use of the statement system on the individual accounts has an excellent moral effect on the force in the office; and it enables the officers and directors of the bank to know that the individual ledgers are correct and represent the actual amount of money due the customers.

The above are three practical suggestions, from my own point of view, as to how the government examination can be bettered.

There are certain things that the directors of banks can do themselves which would materially help the government officials, and the first and foremost is that no man should allow his name to be used as a director of a national bank who does not intend to *direct.* Figure heads are of no practical use and are a positive detriment in the banking business. The day of one-man banking is past in this country. No matter whether that bank be a private, state or national bank; no one man knows it all when it comes to investing other people's money. Comparatively few men make a success individually in investing their own money. How then can that one person be capable of investing the savings and accumulations of a number of people? I have heard it stated time and again by both the state superintendent of banks and national banks and the Comptroller of the Currency, that *no national bank or state bank has ever failed where the directors have done their duty.*

Just what the duty of a director is, is a most important question. I am a firm believer in the fact that what is left to five or ten or twenty men is not as well done as where it is one person's duty to attend to that particular thing. For that reason I believe in the active officials in banks running the banks and having considerable to say about what the policy of the bank shall be. I believe firmly that the advice and counsel of five or ten or twenty men is valuable to any active official in the bank and ought to be sought for by that official and not avoided. In other words, I believe it is the duty of directors to advise, to consult, that it is the duty of officers to carry out

the policy outlined by the board of directors, and if that policy or advice cannot be followed consistently by the officer, then it is his duty to resign, because it is the directors to whom the depositors are looking for the safety of their funds entrusted to the bank. That is the duty of the directors to the officer and of the officer to the director.

The directors have a duty to perform towards themselves, and I know of no way that they can discharge that duty intelligently other than to have an expert examination of the bank in which they are directors, at such time and in such manner as they deem best, with no knowledge whatever given to the active officers of the bank as to when that examination shall be made, and the report of said examination to be made to the directors themselves. This matter is one which simplifies itself according to the size of the bank. The smaller of total footings, the simpler the examination, the easier it is for the directors to satisfy themselves that all is correct.

It is also the duty of the directors to know whether or not the officers of their banks are engaged in speculative ventures and are giving more time to outside business affairs than they are giving to their own bank, for I believe firmly that the time has gone by in large institutions when it is possible for active officials in banks to give their best attention and energy and interest to the business of their bank when their attention is absorbed by their personal interests elsewhere. Either the business of the bank should be important enough and the remuneration sufficient to attract active men to fill these positions of trust, or the officials whose energy and attention is on outside matters should be permitted to devote their entire time to their own affairs, without the annoyance necessarily entailed upon them by devoting any attention to the interests of the depositors who are leaving their funds with them, under the impression that they are being safely looked after.

What we need in the banking business to-day more than anything else is some old-fashioned men, with high ideas of honor and integrity, whose minds and attentions are not all taken up with the bauble of getting-rich-quick; who shall give their entire attention to the business of running a bank in the interests not of themselves nor of a clique with whom they happen to be associated, but in the interests of the people who place their savings with them.

In conclusion, I wish to state that while I believe the methods employed by the government in examining national banks should either be materially changed or the government examination abolished altogether, I do not believe in shifting ones responsibility on to the government, as I am no believer in paternalism. The matter of a safe conduct of the national banking business does *not* rest upon the government officials; it rests upon the directors in the national banks discharging their obligations to the stockholders who elected them, and to the depositors whom they represent, in an honorable, businsss-like and up-to-date manner.

LAWSONISM DISCUSSED.

The signs of the times indicate a growing feeling of social discontent, which finds its chief expression in the indiscriminate abuse of wealth. Apart from the baser passion of class hatred, there is now in progress a searching inquiry in the great court of public opinion as to the ethical significance of money and money making. The presses are groaning under the weight of books and periodicals, whose chief purpose is to discuss the ethics of the dollar. Demagogues are making frenzied appeals to popular passion to proclaim a new crusade against property. One notorious agitator—in cunning knavery, a John Law, and in picturesque diction, a Beaumarchais—is now frantically calling upon the masses to withdraw simultaneously all their bank deposits and sell all except governmental securities, with full consciousness that his appeal, if heeded, would produce a world-wide financial cataclysm. Fortunately, the common sense of the American people classes him with the Coxeys, Carrie Nations and other freaks, who amuse but do not convince the law-abiding masses.

The agitation, however, is not confined to the ignorant, the envious or the malicious. The recent commencement session unmistakably indicated that educated men are disinterestedly considering the phenomena of business in their moral aspects. Their deliverances teem with woeful jeremiads at the evil of the times and the decay of morals.—(By Jas. M. Beck in the Financier.)

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WELLINGTON STREET, OTTAWA.

CAPITAL, - - - $200,000
RESERVE, - - 250,000



FIREPROOF BUILDING.

MOST MODERN AND COMPLETE APPLIANCES FOR THE PRODUCTION AND PROTECTION AGAINST COUNTERFEITING OF

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